NOTE

This Microfiche meets the quality requirements of the American National Standard for Microfiche of Documents (ANSI PH5.9-1975). However, because of imperfections in the document from which it was made, it contains images that are illegible or difficult to read. The source document for this microfiche is the best copy that could be obtained prior to filming.

Congressional Information Service, Inc.
Washington, D.C.

CIS

FISCAL YEAR 1983 AUTHORIZATION FOR CUSTOMS SERVICE, INTERNATIONAL TRADE COMMISSION, AND U.S. TRADE REPRESENTATIVE; RECOMMENDATIONS FOR MARCH 15 REPORT TO BUDGET COMMITTEE

HEARINGS

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SECOND SESSION

FEBRUARY 25 AND 26, 1982

Serial 97–50

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE
91-896 O WASHINGTON : 1982

H781-26

COMMITTEE ON WAYS AND MEANS

DAN ROSTENKOWSKI, Illinois, *Chairman*

SAM M. GIBBONS, Florida
J. J. PICKLE, Texas
CHARLES B. RANGEL, New York
FORTNEY H. (PETE) STARK, California
JAMES R. JONES, Oklahoma
ANDY JACOBS, Jr., Indiana
HAROLD FORD, Tennessee
KEN HOLLAND, South Carolina
WILLIAM M. BRODHEAD, Michigan
ED JENKINS, Georgia
RICHARD A. GEPHARDT, Missouri
THOMAS J. DOWNEY, New York
CECIL (CEC) HEFTEL, Hawaii
WYCHE FOWLER, Jr., Georgia
FRANK J. GUARINI, New Jersey
JAMES M. SHANNON, Massachusetts
MARTY RUSSO, Illinois
DON J. PEASE, Ohio
KENT HANCE, Texas
ROBERT T. MATSUI, California
DON BAILEY, Pennsylvania
BERYL ANTHONY, Jr., Arkansas

BARBER B. CONABLE, Jr., New York
JOHN J. DUNCAN, Tennessee
BILL ARCHER, Texas
GUY VANDER JAGT, Michigan
PHILIP M. CRANE, Illinois
BILL FRENZEL, Minnesota
JAMES G. MARTIN, North Carolina
L. A. (SKIP) BAFALIS, Florida
RICHARD T. SCHULZE, Pennsylvania
BILL GRADISON, Ohio
JOHN H. ROUSSELOT, California
W. HENSON MOORE, Louisiana

JOHN J. SALMON, *Chief Counsel*
JOSEPH K. DOWLEY, *Assistant Chief Counsel*
ROBERT J. LEONARD, *Chief Tax Counsel*
A. L. SINGLETON, *Minority Chief of Staff*

SUBCOMMITTEE ON TRADE

SAM M. GIBBONS, Florida, *Chairman*

DAN ROSTENKOWSKI, Illinois
JAMES R. JONES, Oklahoma
ED JENKINS, Georgia
THOMAS J. DOWNEY, New York
DON J. PEASE, Ohio
KENT HANCE, Texas
WILLIAM M. BRODHEAD, Michigan
DON BAILEY, Pennsylvania

GUY VANDER JAGT, Michigan
BILL ARCHER, Texas
BILL FRENZEL, Minnesota
L. A. (SKIP) BAFALIS, Florida
RICHARD T. SCHULZE, Pennsylvania

DAVID B. ROHR, *Professional Staff*
MARY JANE WIGNOT, *Professional Staff*

CONTENTS

Page

Press release of Friday, February 12, 1982, announcing hearings 1

WITNESSES

U.S. Customs Service: William Von Raab, Commissioner; William T. Archey, Deputy Commissioner; A. R. De Angelus, Assistant Commissioner, Commercial Operations; George C. Corcoran, Jr., Assistant Commissioner, Border Operations; and C. Wayne Hamilton, Director, Budget Division 8

U.S. International Trade Commission: Bill Alberger, Chairman; Michael Calhoun, Vice Chairman; Paula Stern, Commissioner; Alfred E. Eckes, Jr., Commissioner; Lorin Goodrich, Director, Office of Administration; and Richard Arnold, Director, Office of Finance and Budget 40

Office of the U.S. Trade Representative: Dennis E. Whitfield, Assistant U.S. Trade Representative for Administration; Dick Heimlich, Senior Assistant USTR for Bilateral Affairs; John Giacomini, Director, Office of Management; Mike Hathaway, Deputy General Counsel; and Bill Maroni, Director of Congressional Relations 48

Department of Labor: Malcolm R. Lovell, Jr., Under Secretary of Labor; Marvin Fooks, Director, Office of Trade Adjustment Assistance; and Robert Schaerfl, Director, Office of Program Management, Employment and Training Administration 52

Department of Commerce: William H. Morris, Jr., Assistant Secretary for Trade Development, International Trade Administration (prepared statement only; did not appear) 59

Agricultural Trade Council, Peter Nelsen 306

Airport Operators Council International, Inc., J. J. Corbett 91

Air Transport Association of America, Norman J. Philion and James Gorson .. 81

American Federation of Labor and Congress of Industrial Organizations, Stephen Koplan 163

Boggs, Thomas H., Jr., Duty Free Shoppers, Ltd 126

Bristol Brass Co., William H. Freeborn 299

Connery, Vincent L., National Treasury Employees Union 135

Corbett, J. J., Airport Operators Council International, Inc 91

Cossingham, James H., Vermont Wood Industries, Inc 289

Duty Free Shoppers, Ltd., Thomas H. Boggs, Jr 126

Fennell, Daniel, Mid-Atlantic Trade Adjustment Assistance Center 180

Freeborn, William H., Bristol Brass Co 299

Gorson, James, Air Transport Association of America 81

Hayward-Schuster Woolen Mills, Inc., Winfield A. Schuster 285

Joy Footwear Corp., Humberto Lopez 277

Klepner, Jerry D., National Treasury Employees Union 135

KMMCO, Inc., Charles W. Weikel 275

Koplan, Stephen, American Federation of Labor and Congress of Industrial Organizations 163

Levy, Edward S., National Handbag Association 176

Lopez, Humberto, Joy Footwear Corp 277

Mid-Atlantic Trade Adjustment Assistance Center, Daniel Fennell 180

National Handbag Association, Edward S. Levy 176

National Treasury Employees Union, Vincent L. Connery, Jerry D. Klepner, and Paul Suplizio 135

Nelsen, Peter, Agricultural Trade Council 306

Page
Philion, Norman J., Air Transport Association of America ... 81
Powderly, John, United Steelworkers ... 163
Schuster, Winfield A., Hayward-Schuster Woolen Mills, Inc ... 285
Stark, Hon. Fortney H. (Pete), a Representative in Congress from the State of California ... 2
Suplizio, Paul, National Treasury Employees Union ... 135
United Steelworkers, John Powderly ... 163
Vermont Wood Industries, Inc., James H. Cossingham ... 289
Weikel, Charles W., KMMCO, Inc ... 275

SUBMISSIONS FOR THE RECORD

Bailey, Dan, John Bailey, letter ... 310
Chaikin, Sol C., International Ladies' Garment Workers' Union, AFL-CIO, statement ... 316
Connecticut, State of, Hon. William A. O'Neill, Governor, letter ... 310
Corrada, Hon. Baltasar, Resident Commissioner, Puerto Rico, letter ... 311
DiCecco, Thomas, Jr., Oxford Corp., letter ... 321
Footwear Industries of America, statement ... 311
Greater Miami (Fla.) Chamber of Commerce, Special Committee on International Passenger Services, Thomas G. Travis, letter ... 316
Huisingh, W. R., Sunset Sportwear, Inc., letter ... 324
International Ladies Garment Workers' Union, AFL-CIO, Sol C. Chaikin, statement ... 316
International Union, United Automobile, Aerospace & Agricultural Implement Workers of America (UAW), Leonard R. Page, statement ... 318
Laconia Shoe Co., Inc., Robert J. Selig, letter ... 320
Lamiglas, Inc., Dick Posey, letter ... 321
Mackey, R. E., Washington Stove Works, letter ... 326
O'Neill, Hon. William A., Governor of the State of Connecticut, letter ... 310
Oxford Corp., Thomas DiCecco, Jr., letter ... 321
Pacific Fireplace Furnishings, Inc., Ronald A. Schoenheit, letter ... 322
Page, Leonard R., International Union, United Automobile, Aerospace & Agricultural Implement Workers of America (UAW), statement ... 318
Posey, Dick, Lamiglas, Inc., letter ... 321
Profile Sports Corp., Robert J. Saner II, letter ... 322
Saner, Robert J., II, Profile Sports Corp., letter ... 322
Schoenheit, Ronald A., Pacific Fireplace Furnishings, Inc., letter ... 322
Selig, Robert J., Laconia Shoe Co., Inc., letter ... 320
Sheehan, John J., United Steelworkers of America, statement ... 325
Shutzer Industries, Inc., Lawrence L. Shutzer, letter ... 323
Steinberg, David J., U.S. Council for an Open World Economy, Inc., statement ... 325
Sunset Sportswear, Inc., W. R. Huisingh, letter and attachment ... 324
Travis, Thomas G., Greater Miami (Fla.) Chamber of Commerce, Special Committee on International Passenger Services, letter ... 316
U.S. Council for an Open World Economy, Inc., David J. Steinberg, statement ... 325
United Steelworkers of America, John J. Sheehan, statement ... 325
Washington Stove Works, R. E. Mackey, letter ... 326
Zefferetti, Hon. Leo C., a Representative in Congress from the state of New York, chairman of the Select Committee on Narcotics Abuse and Control, letter ... 327

FISCAL YEAR 1983 AUTHORIZATION FOR CUSTOMS SERVICE, INTERNATIONAL TRADE COMMISSION, AND U.S. TRADE REPRESENTATIVE; RECOMMENDATIONS FOR MARCH 15 REPORT TO BUDGET COMMITTEE

THURSDAY, FEBRUARY 25, 1982

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, D.C.

The subcommittee met at 9:40 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[The press release announcing the hearings follows:]

[Press Release of Friday, Feb. 12, 1982]

HON. SAM M. GIBBONS, DEMOCRAT OF FLORIDA, CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES HEARING ON FISCAL YEAR 1983 AUTHORIZATION FOR CUSTOMS SERVICE, INTERNATIONAL TRADE COMMISSION, U.S. TRADE REPRESENTATIVE, AND ON TRADE RECOMMENDATIONS FOR MARCH 15 REPORT TO BUDGET COMMITTEE

The Honorable Sam M. Gibbons, (D-Fla.), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced public hearings on Thursday, February 26, 1982, on:

The fiscal year 1983 Budget for the U.S. Customs Service;

The fiscal year 1983 Budget for the U.S. International Trade Commission;

The fiscal year 1983 Budget for the U.S. Trade Representative;

The fiscal year 1983 Budget for the trade adjustment assistance programs for workers and firms administered by the Departments of Labor and Commerce, including recommendations for program changes; and

Other budget issues under the Subcommittee's jurisdiction, which include Department of Commerce activities in MTN implementation and follow-up, countervailing duty and antidumping administration, export promotion, trade statistics and industry analysis, and textile programs.

The hearings will be held both days in the main Committee on Ways and Means hearing room, 1100 Longworth House Office Building, beginning at 9:30 a.m. The hearings will be followed by Subcommittee markup of its budget recommendations to the full Committee on Ways and Means on March 3 in room 1100 Longworth House Office Building beginning at 9:30 a.m.

Administration officials will testify first on February 25 on President Reagan's fiscal year 1983 budget proposals in each of the areas listed above. The interested public is welcome to testify on budget proposals involving the agencies and programs under the Subcommittee's jurisdiction. Public witnesses will be allotted time for verbal presentations based on the total time available to the Subcommittee following testimony by the administration. Also, in lieu of personal appearances, any interested person or organization may file a written statement for inclusion in the printed hearing record.

Requests to be heard must be received by telephone to the Committee by close of business, Monday, February 22, 1982. The request should be followed by a formal written request addressed to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515; telephone (202) 225-3627.

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Subcommittee are required to submit 50 copies of their prepared statement to the full Committee office, room 1102 Longworth House Office Building, at least 24 hours in advance of their scheduled appearance.

Persons submitting a written statement in lieu of a personal appearance should submit at least three (3) copies of their statement by the close of business Friday, February 26, to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements for the record of the printed hearing wish to have their statements distributed to the press and the interested public, they may submit 50 additional copies for this purpose if provided to the Committee during the course of the public hearing.

Each statement to be presented to the Subcommittee or any written statement submitted for the record must contain the following information:

1. The name, full address, and capacity in which the witness will appear (as well as a telephone number where he or his designated representative may be reached);
2. A list of any clients or persons, or any organization for whom the witness appears; and
3. A topical outline or summary of the comments and recommendations in the full statement.

Chairman GIBBONS. Good morning, ladies and gentlemen. This is a hearing of the Subcommittee on Trade of the Ways and Means Committee on the fiscal year 1983 budget.

The first purpose of the hearing is to consider authorizations for fiscal year 1983 for the Customs Service, International Trade Commission, and the U.S. Trade Representative.

The second purpose is to discuss the budget proposals for other programs within the subcommittee's jurisdiction so that we may present recommendations to the full committee for its report to the Budget Committee required by March 15 for the first concurrent resolution on the 1983 budget.

In particular, we will be considering administration proposals to reduce further the trade adjustment assistance program for workers and to eliminate that program for firms. We will also review the budget request for various activities within our jurisdiction of the Commerce Department's International Trade Administration.

This morning we will hear details of the administration's budget proposals for each of these agencies. Tomorrow morning we will hear reaction from the private sector. Next Wednesday morning, March 3, the subcommittee will mark up its budget recommendations for the full committee.

Before we proceed—the Commissioner of Customs is our first witness—we will hear from our colleague, Congressman Stark.

Congressman Stark, we welcome you. Please proceed.

STATEMENT OF HON. FORTNEY H. (PETE) STARK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. STARK. Thank you, Mr. Chairman. And thank you for giving me the opportunity to come before your subcommittee. I will try and be brief.

The President's budget request for the Customs Service can only be classified as a disaster. I urge this subcommittee to increase the level of funds. And that is not my usual role in this Congress. I believe you can mandate spending in certain areas that will result in revenue gains, and, I am going to submit, revenue gains equal to three and four times the cost of the increased authorization.

This proposed budget will cost us more in lost revenues, smuggling, increased drug traffic, animal and plant diseases, illegal aliens, and other social problems than you will ever save through cutting the budget.

The President wants 5,000 new IRS auditors, and claims that will generate $2.1 billion in additional revenue. The same principle applies to the Customs Service. If it is good for the IRS, it should be good for the Customs.

And, Mr. Chairman, another issue is I know that in Florida you have a serious drug problem. And I am sure that the strike force of additional customs and drug officers who have been assembled in Florida will be well used.

But the narcotics trade knows what is going on. Customs investigators in my district have come to me and reported that since the concentration on Florida began the word is out, the west coast is underprotected and drug smuggling along the Pacific coast, along the Mexican border all the way up to San Francisco and Seattle, has soared.

Mr. Chairman, these cuts are establishing a free trade zone in narcotics. And with this trend line, officers who already inspect less than 1 percent of all the freight containers entering will be so hassled they will not have time to intercept a load of heroin even if it were invoiced and even if the heroin dealers would come pay forward and pay the user fees that I understand the Commissioner is thinking about charging people who are importers. Most of them, as you know, do not have checking accounts, and they are wondering whether the customs agents will take cash. [Laughter.]

Another point. The people in my district have been subject, as we all know, to Medfly sprayings. My Governor had some concern about that. But whatever you may think about the way we control Medflys, my constituents are worried about their health, the health of their children, the impact on the atmosphere and the environment.

I know the chance of a Federal inspector picking up a Medfly is minute. We could use some extra help there. And we might cut back on the need for ruining a major agricultural crop. And I know that applies to Florida as well as it does to California.

For all these reasons—additional revenue, drug trafficking control, agricultural safety—I urge you to adjust the President's request upward.

As you know, last year I offered an amendment, I think much to the dismay and certainly not with the concurrence of the chairman, but he was kind enough not to preempt me and in the heat of the support for the budget last spring, it was not seriously discussed.

But this year I believe on a bipartisan basis we will look more critically at the budget. And I hope that a larger amount will be provided in the initial authorization bill.

I also urge you to provide a breakout between the amount they spend for the traditional functions and the amount to be spent for alcohol and tobacco functions, new functions and, I might add, very important functions to the wine industry in California, which is one of our major exports. Transferring the BATF functions to Customs sets up, in effect, the wicked stepmother-Cinderella problem. Customs has no interest in these new functions. They are small compared to their other duties, and they could be ignored. Yet they are very important. They have a great social impact on our country.

And the alcohol function is basically important to California, as I noted. We need a strong Alcohol Office to continue the export negotiations with the European Economic Community and others. The Alcohol Office, BATF, is a potential major export issue, and I urge this subcommittee to protect it from being lost within the Customs Service.

On the issue of drug control, one additional point. I had a chance to read the Commissioner's statement, and I do not know whether to laugh or cry. He spends the first two pages describing how they are going to cut manpower by 2,300 positions. And then he says, and I quote, "The fiscal year 1983 budget for the Customs Service mirrors the policies of this administration for control of Government spending, reduction of crime." And then it goes on to say that he will make law enforcement our highest priority.

Now, that sounds like the chief of police in San Francisco saying, "I am going to make law enforcement our highest priority and cut the police force in half." This is the testimony for fiscal year 1983, but these statements are right out of 1984. They are doubletalk, doublespeak, doublethink.

Mr. Von Raab has an excellent reputation. I am sure the statement was written by OMB. But I hope he blushes when he reads those lines. It is nothing but baloney, and I think it is bad baloney at that.

Back on page 9 he spends most of the page talking about the detector dog program and how good it is. I know your staff, Mr. Chairman, went up to see the detector dog center last spring. And the dog teams were already 25 below authorized level due to budget cuts. You could ask how they stand now. By the way, it costs $22,000 a year to maintain a dog team, and they destroy about a million dollars' worth of illicit drugs each year. That is another area where the spending will be thirty or fortyfold returned, not only in dollars to this country but in saving the lives of innocent children who may be affected by those narcotics.

I urge in this instance we not be penny-wise and pound-foolish. We know the cost of everything. It is important that we consider the value that we will receive when we spend a few extra dollars.

And I thank you for the opportunity of being with you this morning. I would be glad to answer any questions if there are any that I might have brought to mind.

[The prepared statement follows:]

STATEMENT OF HON. FORTNEY H. (PETE) STARK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

CUSTOMS SERVICE BUDGET FOR FISCAL 1983

Mr. Chairman, members of the committee, I appreciate this opportunity to testify. I will be brief.

The President's budget request for the Customs Service is a disaster. It means a RIF and attrition of 2,000 to 2,600 officers or 1 in 6 in a Service already stretched tighter than a rubber band.

I urge the subcommittee to increase the level of funds. I believe you can mandate spending in certain areas which will result in revenue gains equal to three or four times the cost of the increased authorization.

The Customs Service is a moneymaker. The administration's budget cuts will cost us more in lost revenue, smuggling, increased drug traffic, animal and plant disease, illegal aliens, and other social problems than will ever be saved by cutting their budget.

The President wants 5,000 new IRS auditors and claims that this will generate $2.1 billion in additional revenue. The same principle applies to the Customs Service. If it is good for the IRS, it should be good for Customs. If it is good to catch tax cheats and avoiders and those making honest mistakes, surely it is good to catch smugglers, narcotics traffickers, and shippers who have accidently mis-invoiced. I hope you find it as strange as I do that the administration wants to hire 5,000 new IRS men and lay-off 2,000+ Customs officers. Churning such as this does nothing but destroy morale and productivity.

Another issue. Mr. Chairman, I know you have a severe drug problem in Florida, and I am sure that the strike force of additional Customs and Drug officers who have been assembled in Florida will be well-used. But the narcotics trade knows what is happening. Customs investigators in my District have come to me and reported that since the concentration on Florida began and the west coast was stripped of officers, drug smuggling along the Pacific coast has soared. We recently had a plane loaded with marihuana land at a very urban airport in Hayward, Calif., right on San Francisco Bay. The trafficking is becoming wide open and brazen. The shift of officers away from the west coast comes at the same time that the Coast Guard is taking enormous cuts, with cutters and stations being decommissioned up and down the coast.

The situation is so bad that I understand that the four giant southern Oregon counties have only two Customs Patrol officers to cover 200 miles of coastline where drug smuggling is rising. Mr. Chairman, these budget cuts are establishing a Free Trade Zone for narcotics. With this trend line, officers—who already inspect only 1 percent of all freight containers entered—will be so hassled that they wouldn't have time to intercept a load of heroin, even if it were invoiced!

Fighting drug smuggling is like holding your finger in a dike—a hard, lonely job. But asking officers to run from dike to dike and coast to coast is doomed to failure. We will increase travel and relocation costs, but we won't make any difference in the war on narcotics.

Another point. The people in my District have been subject to anti-Medfly sprayings for half a year now. They don't like it. They worry about their health and the health of their children. I know that this particular Medfly epidemic did not result from the illegal or unreported entry of pests. I know that the chance of Federal inspectors intercepting animal and plant pests is like finding needles in a haystack. But with these proposed cutbacks, the job will be utterly impossible. In time, that will mean more agricultural damage and more communities sprayed and resprayed.

For all these reasons—additional revenue, drug trafficking control, agricultural safety—I urge the committee to adjust the President's request upward.

Mr. Chairman, as you know, last year when this Customs bill was brought to the full committee, I offered an amendment to increase the budget by $10 million on the grounds that Customs had assured me that this could be used to generate an additional $49 million in income from fines and penalties. In the heat of support for the President's first budget last spring, the amendment was not seriously discussed. This year, I believe a much larger amendment would be successful. I hope that instead of amendments, however, the subcommittee could lead the way in providing a more realistic budget.

I also urge that the authorization bill provide a breakout between the amount to be spent for the traditional Customs function, and the amount to be spent for alcohol and tobacco functions. Transferring BATF functions to Customs sets us up for a

Wicked Stepmother-Cinderella situation. Customs has no interest in these new functions; they are so small compared to the regular Customs budget that they are likely to be ignored. Funds and resources will be borrowed from the alcohol and tobacco activities, etc. Yet these functions are very important.

The alcohol function is particularly important to California. We need alcohol regulation and assistance in ensuring quality trade in wines and spirits. We particularly need a strong alcohol office to continue the export negotiations with the EC and others. Just when the USTR has completed its study of barriers to the export of U.S. alcoholic beverages and the United States can start to negotiate on some of these barriers, the budget cuts and demise of BATF threaten our ability to convince foreigners of the quality of aloholic products.

The alcohol office of BATF is a potential major export issue. I urge the subcommittee to protect it from being lost within Customs.

Chairman GIBBONS. We thank you, Mr. Stark, for your very excellent statement.

Do you know how much would have to be added to the appropriation to meet the needs of Customs?

Mr. STARK. I am told that the people within the Customs Department say as much as $50 million. I think I had asked in my amendment last year for $10 million in an experiment to see what kind of extra revenue we could shake out.

I am inclined to go with the experts. I am also inclined to understand, Mr. Chairman, that overhead costs can often be overstated, not only in our own bureaucratic situation here in the House of Representatives, but in any bureaucracy, whether it is General Motors or indeed the Treasury or the Customs Department.

So that I am inclined to look at every budget request, as I know this committee is, with a magnifying glass and make them cross every t and dot every i.

But I am suggesting the range of $10-$50 million. With this committee's expertise, I think you would find a suitable figure and any amount would be a step in the right direction.

Chairman GIBBONS. Are there further questions of Mr. Stark? Mr. Bailey.

Mr. BAILEY. Thank you, Mr. Chairman.

Congressman Stark, forgive my cold.

You talked about some increases in funding. Is there any way at all that the Service can save some money? Do you have some recommendations there?

Mr. STARK. Yes, I am sure they could. And if you wanted to mandate some of these savings and direct them into other areas, I think like one person's cut could be another person's increase.

Your own committee, I think, has listed areas, for instance, many Customs Service aircraft are used very inefficiently. They are tremendously expensive to staff, maintain, and to operate. The quick sale of impounded yachts and other aircraft, rather than long periods of maintenance, could bring in some additional savings.

I suspect that I would have to go easy on objecting to closing of Customs offices. I suspect if it is a question of putting GS-17 desk jockeys in regional offices—you said you wanted a cut at that level—and put more cops on the beat, so to speak, I would be hard-pressed.

Now, it has been rumored that there are some offices subject to closing. And I might go so far as to say, all right, why not a regional office for each major border, understanding that San Francisco would obviously be the best place to maintain the west coast office. And they might wish to close other Customs offices up and down the west coast.

Aside from that, I suspect that there are other areas for saving. But I am not sure that when you add additional functions such as BATF to the Service and where you have this tremendous increase in drug smuggling, that this is the place to make cuts.

I think as an amateur detective, I would opt toward cops on the beat and I would make it very difficult for the smugglers and, indeed, not just narcotics traffickers. The people who find it a lot less expensive in the normal course of commerce to avoid paying their fair share of customs duties through industrial smuggling. And I think that I would opt that way.

So, yes, I would have to tell you there are some ways you could get much more efficient.

Mr. Bailey. Thank you. Thank you very much.

Thank you, Mr. Chairman.

Chairman Gibbons. Mr. Pease.

Mr. Pease. Mr. Chairman, I would just like to thank our distinguished colleague for his testimony this morning. As he has pointed out in his testimony, last year it was difficult for us to consider the administration's proposals objectively because of the pressure, the time pressure and the steamroller that was running. This year I hope it will be different, and I hope we will be able to look at various proposals for cuts from a commonsense point of view, whether there is any return on the investment in additional people or in maintaining the people we have.

I think he has pinpointed very well that this is an area where cutting back on personnel is really false economy. It is not real economy. And I think we are indebted to him for stressing that in very clear and understandable terms.

Mr. Stark. I thank the gentleman very much.

And again I thank the chairman for the opportunity and the privilege to appear before your subcommittee.

Chairman Gibbons. First, I appreciate your coming and your interest in this matter. I know it is a continuing interest.

And I do not know whether, Mr. Stark, you had an opportunity to look at the assist test program that is being conducted at the international airports in Los Angeles and in Miami that is designed to expedite customs processing.

You mentioned customs processing problems, or the boarding problems in Hawaii, coming back to the States, coming back from that State to the rest of the States.

And I know Mr. Vaughan, when he was on this staff, looked at these problems. I wonder if either one of you would want to comment about the assist test. And would you recommend further expansion of the assist test program perhaps to an area like San Francisco or something like that?

Mr. Stark. Mr. Chairman, is the assist test similar to what I might call the red light, green light program that they use in some European centers?

Chairman Gibbons. That is roughly it.

Mr. Stark. I, as you know, inspected those and talked with some of the customs people in other countries where they have used it to find out their feeling. I am a pretty firm believer in scientific sampling, in the ability to train our people to detect types of behavior that would lead them to suspect that people ought to be detained and searched or interrogated. And I have found as a person visiting, say, the Frankfurt airport, that the red-light, green-light approach, from the standpoint of goodwill for tourists and travelers is great.

Also, in discussing it with their law enforcement people, they are comfortable with it.

For the benefit of the rest of the committee, and you may understand this better than I do, but if you have nothing to declare, you walk under the green light and if you do want to declare you go in the red light and go through the normal procedure.

Yet they do a sampling of the people who opt for the green light. And the law enforcement people tell me that they feel pretty comfortable with that in that they sample anyway. They do not open every suitcase, and so that perhaps they are more alert to looking for a particular type of behavior or particular type of luggage.

And to the extent that it may be more efficient than handling large crowds—and I am not sure that the results are in—but I certainly think that I would support testing those kinds of methods which might be equally or more efficient and certainly cost us less.

Chairman **Gibbons**. Thank you. Thank you, sir, we appreciate your testimony, your coming, and your statement.

Mr. **Stark**. Thank you.

Chairman **Gibbons**. Our next witness will be from the U.S. Customs Service, Mr. William Von Raab, the Commissioner. He is accompanied by Mr. Archey and Mr. De Angelus.

STATEMENT OF WILLIAM VON RAAB, COMMISSIONER, U.S. CUSTOMS SERVICE, ACCOMPANIED BY WILLIAM T. ARCHEY, DEPUTY COMMISSIONER; A. R. De ANGELUS, ASSISTANT COMMISSIONER, COMMERCIAL OPERATIONS; GEORGE C. CORCORAN, JR., ASSISTANT COMMISSIONER, BORDER OPERATIONS; AND C. WAYNE HAMILTON, DIRECTOR, BUDGET DIVISION

Mr. **Von Raab**. Mr. Chairman and members of the committee, we appreciate this opportunity to appear before you today to present the U.S. Customs Service fiscal year 1983 appropriations request.

If I may, I will just introduce these gentlemen with me. Mr. George Corcoran is at my far left. He is our Assistant Commissioner for Border Operations. And as you mentioned, Mr. William Archey, the Deputy Commissioner, is at my immediate left. My immediate right is Mr. Wayne Hamilton, who is in our Budget Office. And at my far right is Mr. De Angelus, who is our Assistant Commissioner for Commercial Operations.

Since we have had such a helpful analysis of my formal statement, which, I believe, you received in advance, maybe I could request, in light of Congressman Stark's comments thereon, that I forgo reading that and read, instead, a brief summary.

Chairman **Gibbons**. Certainly. And we will put your entire statement, full statement, in the record.

Mr. **Von Raab**. Thank you very much.

We are today presenting the Customs Service fiscal year 1983 appropriation request of $530,521,000, which includes 12,581 direct average positions. This budget includes 719 average positions and $31,464,000 to carry on the alcohol and tobacco functions which may be transferred from the Bureau of Alcohol, Tobacco and Firearms.

This level of funding assumes only minimum enforcement of the Federal Alcohol Administration Act, with 100 average positions and $3.5 million. This appropriation level represents a net increase of $6,299,000, that is the result of an uncontrollable increase of $43,594,000 to maintain the current level of operations for Customs functions, offset by a reduction of $38,277,000 in Customs operational staffing and costs.

It should be noted for year-to-year comparisons that the authorized level for fiscal year 1982 does not include resources for the recent pay increases, while the fiscal year 1983 budget level does. Our request assumes a reduction in force of 1,500 for full-time permanent positions. In addition, this request assumes attrition of 800 positions, for a total decrease of 2,300 for Customs positions.

More detailed information can be found in our 1983 budget submissions and in a formal statement to which I have just referred.

As we carry out Customs' basic mission of collecting the revenue from imports and enforcing customs and related laws, I intend to shape customs policy to conform to this administration's direction. We will control Government spending, be responsive to the private sector, make operations efficient and effective, and apply user fees and charges where specific groups directly benefit from services.

The objectives within the Customs Service budget closely follow these policies. Enforcement has not previously been emphasized sufficiently in Customs, and I intend to change this by making law enforcement our highest priority.

Drug smuggling is on the increase. And law enforcement agencies are not getting a large percentage of the estimated total traffic. Routine workload and paperwork are requiring more and more staff time, leaving less time for enforcement efforts. I intend to highlight not only the overall law enforcement thrust of Customs but also the substantial effort and results that are and will be taking place.

The administration has made a commitment to fight crime in response to public concern. We in Customs have a unique opportunity to contribute. And I would like briefly to mention our strategy for accomplishing this.

We must better define Customs' and other agencies' roles in drug enforcement efforts; stress intelligence, technology, and analysis of performance; emphasize selectivity, increasing the use of profiles and new techniques to focus on high-risk transactions; and maintain a mobile force to respond to shifts in threat.

In addition, we will concentrate on special operations designed to disrupt conspiracies and halt illegal export of critical technology; impact the national drug problem, with a special emphasis on heroin smuggling; detect major losses of revenue and criminal fraud by increasing investigative activity in the trade area; and disrupt the cash flow of narcotics traffickers and other organized crime organizations.

Another important priority is our responsibility to collect revenue from duties, fees, and excise taxes. This is particularly crucial during the period of corporate and personal income tax reductions and budgetary restraints designed to put our Nation's economy back on a strong footing.

We intend to expand and improve debt collection efforts and incorporate private sector business practices such as electronic funds transfer. Customs has a major impact on commerce, since we are responsible for the administration of trade laws, as well as tariff and nontariff controls, on imports and exports and we carry out U.S. trade policy and protect both the U.S. industry and consumers.

We are seeking to develop closer bilateral relations with the customs administrations in other countries, particularly those which are major trading partners with the United States.

In January of this year two members of my executives staff and I visited Japan. We had frank but friendly discussions with the director general of the Japanese Customs and Tariff Bureau concerning customs procedures which hamper the flow of trade between our countries. We agreed to establish a United States-Japan customs liaison committee that would meet periodically to discuss matters of mutual concern, such as customs procedures.

It is our belief that such customs-to-customs contacts can be beneficial in resolving some of the friction that has developed in the trading relationship between the two countries, and that the U.S. Customs Service can assist the Japanese Customs and Tariff Bureau in identifying and modifying procedures which are viewed as nontariff barriers to trade.

While it is important that we emphasize our law enforcement and revenue collection functions, I am well aware that this must be done in a manner which continues to facilitate the movement of people and cargo across our borders. We believe that most of our clients are lawabiding. And rather than subject them to antiquated time-delaying processing methods that produce relatively insignificant seizures, we plan to implement innovative and selective processing techniques.

We will place increased emphasis on special enforcement operations and interdisciplinary task forces to target against potential violations and to allow the majority of all customs processing to be facilitative.

Additionally, we will develop performance standards and specific goals in both passenger and cargo processing. The end result will be increased facilitation of both passengers and cargo.

I am a strong believer in the free enterprise system and that it should be allowed to operate, as much as possible, free from government overregulation. Customs also suffers from the regulatory burden. Paperwork requirements in Customs have increased dramatically. Therefore, we plan to assess existing laws and regulations to determine which ones are no longer appropriate and can be eliminated. The routine workload and paper processing burden will be reduced, thereby increasing our efficiency in this area.

Finally, we are developing a proposal to reduce the number of Customs regions and districts. The savings achieved in reducing the number of offices would be used to limit the effect of the fiscal year 1983 reductions on high-priority enforcement areas.

Even with a reduction of over 2,300 Customs positions from our fiscal year 1982 level, I intend to make real progress on these priorities in terms of increased enforcement results, improved cost effectiveness, better service, and a modernized Customs Service.

This concludes my introductory statement. We will, of course, be pleased to discuss any of the details of our request and answer any questions you or the other members may have. Thank you very much.

[The prepared statement follows:]

STATEMENT OF WILLIAM VON RAAB, COMMISSIONER OF CUSTOMS

INTRODUCTION

Mr. Chairman and Members of the Committee, we appreciate the opportunity to appear before you today to present the U.S. Customs Service fiscal year 1983 appropriation request of $530,524,000 and 12,581 direct average positions. This budget includes 719 average positions and $31,464,000 to carry on the alcohol and tobacco functions transferred from the Bureau of Alcohol, and Tobacco and Firearms. This level of funding assumes only minimum enforcement of the Federal Alcohol Administration Act, with 100 average positions and $3,500,000.

This appropriation level represents a net increase of $6,299,000, which is the result of an uncontrollable increase of $43,594,000 to maintain the current level of operations for Customs functions, offset by a reduction of $38,277,000 in Customs operational staffing and costs. It should be noted for year-to-year comparisons that the authorized level for fiscal year 1982 does not include resources for the recent pay increases, while the fiscal year 1983 level does. Our request assumes a reduction-in-force of 1,504 full-time permanent positions. In addition, this request assumes attrition of 800 positions for a total decrease of 2,304 Customs positions.

More detailed information can be found in our fiscal year 1983 budget submission. Now I would like to tell you about some of Customs accomplishments for the past fiscal year.

MAJOR ACCOMPLISHMENTS

As you know, the Customs Service is a major source of revenue for the Federal Government as well as a vital law enforcement arm. During fiscal year 1981 we collected a record $9.2 billion, an increase of better than 12 percent over the previous year. This represents a return of over $18 for every appropriated dollar spent in carrying out our Customs responsibilities.

Customs cleared more than 314 million persons entering the United States and more than 96 million vehicles, vessels, and aircraft. This represents an average increase of 6 percent in the number of persons, and carriers cleared in fiscal year 1981 when compared to fiscal year 1980. We also processed some 46 million mail parcels, and 78 million items of letter class mail.

Illicit drugs, prohibited articles, and undeclared merchandise seized by Customs were valued at more than $5.4 billion. Customs seizures were 234 pounds of heroin; 3,741 pounds of cocaine; 17,991 pounds of hashish; 38.9 million units of polydrugs, and 5 million pounds of marijuana. Seized in conjunction with other agencies.

The fiscal year 1983 budget for the Customs Service mirrors the policies of this administration for control of government spending; reduction of crime; responsiveness to the private sector; increasing the efficiency and effectiveness of operations.

The objectives within the Customs Service budget closely follow these policies. Foremost, enforcement has not been emphasized sufficiently in Customs; therefore, we will turn this around by making law enforcement our highest priority. Customs has a critical role in enforcing a variety of significant laws involving trade, drug interdiction, export of critical technology, and commercial fraud.

Secondly, facilitation of passengers and cargo will also be emphasized, since, in our opinion, most people we service are law abiding. This is not contradictory to enhanced law enforcement. Customs officers must focus their efforts on the "high risk" passengers and cargo while allowing the predominantly law abiding transactions to receive minimal attention. The development of sound selectivity methods is critical to the accomplishment of this objective.

Finally, in an era of declining resources, this budget continues our efforts to reduce the overall cost of doing business. Bureaucratic maintenance operations will be reduced or eliminated by instituting sound management practices and systems to eliminate waste. Overhead, as well as redundant and marginal operations, have been specifically targeted for significant reductions to partially meet the reduced resources levels reflected in this budget. We are also studying a number of options to achieve resource savings and improve operational performance, including a possible regional reorganization. In this area, we are completing a reevaluation of our regional structure which will be submitted to the Department for review in the very near future.

To implement the objectives within this budget, we will rely on further deregulation, modern management practices, automation and technology to resolve the problems posed by increases in workload, paperwork, and enforcement threat. In addition, major structural reorganizations will be implemented as required to help meet these overall objectives.

INSPECTION AND CONTROL

The Inspection and Control Activity, in the U.S. Customs Service, encompasses programs involved in the processing of persons and cargo, as well as the clearance of carriers, for both revenue and enforcement purposes. While it is important that we emphasize our law enforcement and revenue collection functions, we are well aware that this must be done in a manner which continues to facilitate the movement of people and cargo across our borders. It is my understanding that the concepts of enforcement and facilitation are viewed as contradictory and have been called the Customs dilemma. Personally, I do not believe these two functions conflict with each other. As I have previously stated, most of our clients are honest and law abiding. Customs can not continue to penalize the vast majority of passengers and importers by subjecting them to antiquated, time delaying processing methods. Such scrutiny produces minimal seizures which may have been significant 10 years ago, but now represent only a fraction of our enforcement results. In order to better balance these missions, Customs will implement innovative selective processing techniques and criteria to capitalize on the high compliance level of the majority of passengers and cargo. We will expand existing cargo selectivity systems and develop an innovative passenger processing system which will reduce the time for clearing Customs while not sacrificing enforcement results. Use of these techniques very recently resulted in the seizure of 133 pounds of heroin concealed in coffee urns in a Brooklyn warehouse, and 37 pounds of heroin concealed in false-bottom suitcases at JFK International Airport.

Passenger processing

Customs processed more than 314 million persons entering the United States in fiscal 1981. This number is expected to increase 6 percent by the end of fiscal year 1983. Although air passengers constitute only about 10 percent of the total number of persons entering the country, they strain Customs resources more severely because of their high concentration in time and place. While more rapid passenger growth is expected overall in fiscal year 1983, the percentage of air passengers will increase substantially more than by land or sea.

To meet these greater demands, Customs has implemented systems such as Citizen By-pass inspection. Operating at 26 locations within 22 airports, this system allows U.S. citizens with valid passports and military personnel traveling under official orders to by-pass Immigration processing and proceed directly to the Customs area. In spite of the problem of slow baggage arrival, Citizen By-pass has accelerated overall inspectional processing by as much as 20 percent.

Another system currently operating at five airports is One-Stop, in which one Federal inspector is cross-designated to perform routine inspections for Customs, Immigration, and Agriculture at one location in the airport. The passenger presents himself to the inspector with all entry documents and baggage in his possession. Although still subject to delays in baggage delivery, this single inspection processing has reduced the primary inspection time by as much as 30 percent.

Further implementation of One-Stop is tied to the outcome of a congressionally mandated trial program, the Accelerated Specialized Inspection System Test [ASIST]. This 6-month test began August 4, 1981, at Miami and Los Angeles International Airports. While ASIST also uses cross-designated Customs and Immigration inspectors, passengers are screened by the inspectors prior to claiming their checked baggage. We hope this will allow us to take advantage of the delay in baggage delivery without weakening our enforcement, however, we are aware that this may not be the answer to our facilitation problems. Because of the variety of facilities, flight arrival patterns, and staffing capabilities, we feel that no one all encompassing, short-term solution may be feasible. Therefore, we are examining multiple strategies to cope with our current and future demands.

To judge the success of ASIST, the three Federal Inspection Services [FIS], the Customs Service, the Immigration and Naturalization Service [INS], and the Animal and Plant Health Inspection Service [APHIS], are comparing the processing rates, staffing requirements, enforcement results, facility, and aircraft peaking data obtained during the test period with available data from the comparable period of last year. A complete evaluation of the test program will be forwarded to Congress later this year.

Cargo processing

In fiscal year 1981, Customs processed over $257 billion in merchandise and over 4.5 million formal entries. Faced with substantial decreases in staffing in fiscal year 1983, selectivity is imperative. We have placed the emphasis not only on the facilitation of passengers but also on the facilitation of cargo. To accomplish this we are expanding existing cargo selectivity systems and developing performance standards and specific goals. At major airports around the country with their ever increasing arrival of passengers and cargo improving facilitation is essential. I would now like to discuss several systems which have been specifically designed to facilitate this flow of cargo while focusing on high risk transactions.

The Automated Cargo Clearance and Enforcement Processing Test [ACCEPT] was revised and implemented for final evaluation in New Orleans during fiscal year 1981. The basic objectives of ACCEPT are to concentrate Customs resources on high risk cargo shipments identified by automated intelligence and examination criteria, and to facilitate the flow of legitimate cargo across our borders.

Based on the success of the New Orleans test, ACCEPT is being considered for implementation nationwide and for programming on the new Customs computer during fiscal year 1982. A similar system used at land borders, Better Border Enforcement Through Selectivity [BBEETS], also uses prior information and violation profiles to strengthen enforcement while expediting cargo flow.

Final implementation of an on-line In-Bond system is underway to monitor and control the nationwide flow of imported merchandise being transferred under bond. Paperwork involved in this procedure has thus been sharply reduced, simplified and automated for nearly 100 percent of these shipments.

In fiscal year 1981, new X-ray systems designed to satisfy Customs unique requirements were instrumental in the seizure of cocaine, hashish, and marijuana, and in the seizure of more than $2 million in currency. Other technologies will be applied in fiscal year 1983, concentrating on systems to detect narcotics and currency concealed in baggage, packages, and conveyances.

In September 1982, Customs will eliminate approximately 300 warehouse officer positions responsible for direct supervision of bonded merchandise that must be stored. Operations will shift from onsite control to spot checks and regulatory audits in inventory and will produce significant savings for the private sector.

Customs Detector Dog and Special Cargo Enforcement Teams continued their successful inspection activities during fiscal year 1981. Along with the dedicated work of Customs officers nationwide, their efforts resulted in cases which included the following.

A Miami team with dogs discovered 100 pounds of cocaine in an aircraft nose cone shipped from Colombia en route to Canada.

At JFK Airport in New York, an inspector discovered 6 pounds of heroin in the false bottom of a suitcase carried by a Thai arriving from Korea.

At Honolulu Airport, inspectors found 8 pounds of heroin, in the suitcase of an overly polite real estate dealer from Washington State who was returning from the Philippines.

At New Orleans Airport, inspectors found $1,890,862 in undeclared checks and currency in the briefcase of a male passenger.

At Los Angeles Airport, a couple was found to have $212,600 in unreported checks and currency in food jars, a stocking box, and a book.

At San Francisco Airport, inspectors discovered 7 pounds of cocaine packed into flashlight batteries in the luggage of a traveler from Amsterdam.

On the New Jersey waterfront, a team, with dogs, discovered $28 million worth of heroin (about 46 pounds) secreted in a shipment of furniture from Sicily.

A team in Miami uncovered 2,381 pounds of methaqualone powder, the principal ingredient of quaaludes, in the largest such seizure in U.S. history.

Finally, in Newark, N. J., a team discovered in a shipment identified as gun parts 119 fully assembled machine guns, worth nearly $600,000.

TARIFF AND TRADE

The principal functions of the tariff and trade program derive from the Tariff Act of 1930, which requires that Customs carry out appraisement, classification, duty collection and liquidation on entries of imported merchandise. Related functions include the verification of import statistics, administration of trade policy through quotas, monitoring and other control systems, and enforcement of merchandise admissibility requirements of over 40 other Federal agencies.

The Customs Service has been making an ever-increasing number of civil penalty cases. For the 3-year period ending with fiscal year 1981, Customs had seized about $97,000,000 in monetary instruments and collected about $4,000,000 in court fines and civil penalties under the Currency and Foreign Transaction Reporting Act. Civil penalty cases usually follow criminal prosecution or crime-related cases, and involve large sums of money; two recent cases assessed penalties totalling approximately $10,000,000.

In addition, the Customs Service annually makes thousands of seizures of property involved in violations, ranging from aircraft, munitions, jewelry, vessels, and narcotics to merchandise of every description. These violations of Customs laws often result in the assessment of very substantial monetary penalties. Most of these seizures involve court-mandated deadlines, and a large number of assessed civil liabilities are contested vigorously by highly competent counsel. We continually are devising procedures and methodologies to facilitate the administration of civil fines, penalties, and forfeitures in an equitable manner, consistent with our missions of law enforcement, protection, and collection of revenue, and protection of domestic industry.

We have continued to publish a significantly increased number of Customs rulings on matters of widespread interest. The benefits of publishing our official position are increases in uniformity of treatment regardless of the port of entry or arrival and providing to the importing public and international trade community an increased degree of predictability in their business transactions. In addition, the publication of significant rulings has the tendency of decreasing controversy between Customs and those who are compelled to comply with out laws and regulations in the conduct of their business and travels.

I would like to emphasize that I am a strong believer in the free enterprise system and feel that it should be allowed to operate as much as possible free from government overregulation. At present, Customs also suffers from the regulatory burden, with dramatically increased paperwork requirements. I intend to reduce the burdens of unnecessary regulations on the trade community and of routine workload and paper processing on Customs operations. We will eliminate obsolete requirements imposed on the trade community, increase efficiency, reduce costs to both the private sector and Customs, and streamline monitoring and control systems by expanding the use of audit and automation.

Maximizing automation capabilities

As previously mentioned, one of our objectives is to develop a fully integrated and automated data base that will satisfy the basic requirements of Customs and the Trade Community for entry processing, entry examination, release, duty collection, and liquidation. Many of our current manual and automated entry processing functions have evolved as independent activities within the Customs Service and do not integrate well with one another.

The new Customs computer will greatly assist Customs in achieving this integrated systems support and will incorporate modern and efficient business practices into Customs functional operations involving entry, revenue, bond, quota, cargo control and administrative processing. This computer will facilitate more responsive support for current systems, eliminate duplication in present technical and operational support, and provide a baseline for significantly improved user support.

A very important automation project is the design of a comprehensive Selective Entry Processing system. To cope with increased entry workloads, this system will allow for reduced levels of processing for certain low risk entries at both the examination stage and classification and appraisement stage. The proposed system will be designed to improve communications between inspectors and import specialists, as well as between Customs offices in different sections of the country. This, in turn, will promote processing uniformity. In fiscal year 1983, system design and developments should be completed and ready for the next stages of programming and testing. Once implemented, this selectivity system should result in the performance of fewer examinations, increased discrepancy discoveries, more processing uniformity, and more efficient use of government personnel.

Another major system I would like to discuss is the Automated Broker Interface [ABI], a joint project of the Customs Service and the Customs brokers industry to electronically exchange import information between the brokers' computers and the Customs computer. This process could eliminate the manual filing of millions of documents and a substantial amount of data input costs, allows for the correction of errors prior to the start of Customs processing, and reduces the costly rehandling of transactions for both Customs and the trade community.

By the start of fiscal year 1983, both Customs and the brokerage community will have completed an evaluation of the pilot test in Baltimore and Philadelphia, and identified with priorities those design features for the national ABI system. A decision will be made on whether to implement a national ABI system.

This project is expected to pay increasing benefits for the future by creating a communications and processing environment that will lead us to eliminating large amounts of paperwork and providing the capability for simplified methods of processing imports and duty payments.

Optimizing current resources

In a time of static and/or diminishing resources with constant or increasing workload, we are seeking other ways to enhance productivity. New methods to expedite the processing of quota entries, without jeopardizing Customs careful scrutiny of this sensitive merchandise, are being tested. We have established procedures for coordinating the work of import specialists and regulatory auditors to facilitate selective entry processing.

Further, plans are being developed to increase the centralization of duty assessment functions in each of Customs nine regions. Each region will be involved in a plan for reorganizing duty assessment locations, striving for no more than one appraisement location per district (with up to a total of 35 duty assessment locations nationwide). This should facilitate communication, increase uniformity of appraisement, and reduce overhead, without unduly disrupting the trade community and the public at large. Resource allocation systems are being developed and implemented in both passenger and cargo processing and tariff and trade functions to ensure equitable and efficient service to the trade community and the public. The success of our program delegating the authority to issue binding rulings in selective areas of tariff classification to National Import Specialist has been remarkable. The turnaround time at New York is well under 30 days as compared to at least several months when all binding rulings were issued from Headquarters. In addition, this system has permitted the use of highly trained competent attorneys at Headquarters for major matters involving very substantial sums of money and/or issues impacting upon our international trade policy and position. We are now able to handle these complex matters on a more expeditious basis.

Based on the success of this program, careful consideration is being given to delegating additional decision-making authority to our field office under close Headquarters guidance and supervision, and always with a guaranteed right of appeal to Headquarters.

These efforts should simplify processing procedures and generate significant productivity improvements.

TACTICAL INTERDICTION

The primary goal of the Tactical Interdiction Program is to detect and apprehend persons involved in the smuggling of contraband into the United States both at and between the ports of entry. The vast majority of the smuggling threat involves drugs. A major focus in developing Customs strategies to counter the smuggling threat centers around the nature of various narcotic threats. In this regard, Customs maintains a highly mobile interdiction force, proficient in land, sea, and air tactical enforcement operations tailored to meet changing smuggling patterns. This force, Customs Patrol, has introduced new operational approaches, equipment, and technology to reduce smugglers' options for choosing the method, time, and location for entering contraband into this country.

Our principal interdiction force is some 1,200 Patrol officers, stationed at land, sea, and airports of entry in the U.S., and supported by airplanes, helicopters, and boats. The primary emphasis of the program has been the Southeast Border, where massive amounts of drugs enter the country, and large flows of currency enter and leave daily to finance this international drug trafficking. Close cooperation with other enforcement agencies, such as the Coast Guard, has resulted in a series of joint interdiction operations at border areas. During fiscal year 1981, both nondrug and drug seizures made by Customs Patrol officers amounted to almost $4.8 billion. This translates into nearly $4 million worth of contraband per Patrol Officer.

Even so, drug smuggling is on the increase, and law enforcement agencies are not getting a large percentage of the estimated total traffic. At the same time, routine workload and paperwork are requiring more and more staff time, leaving less time for enforcement efforts. I fully intend to emphasize not only the overall law enforcement thrust of Customs, but also the substantial effort and results that are and will be taking place. This Administration has made a commitment to fight crime, in response to public concern. We in Congress have a unique opportunity to contribute.

I plan to realign the internal organizational structure so that the various enforcement elements work better together. Customs will seek closer cooperation with other law enforcement agencies as well as with foreign countries. Again, selectivity and technology will be employed in our interdiction efforts.

Current efforts

Our Land Interdiction Program conducts a variety of traditional enforcement operations such as surveillances, patrols, intelligence-gathering, monitoring sensors, continuing examinations of passengers and crew members, special integrated enforcement efforts, and vessel and aircraft searches. Land Patrol officers also participate in cooperative interdiction efforts and maintain a liaison with other law enforcement agencies.

To combat smuggling by vessels, the Customs Marine Interdiction Program operates 95 boats ranging in size from 14 to 57 feet and stationed at 49 different locations. These boats are used for stationary and moving surveillances, routine patrols (in high risk areas), and intelligence gathering. A favorite method of large-scale smugglers is the use of "motherships" which are large fishing or ocean-going vessels. These "motherships" are laden in Caribbean and Latin American countries with multi-ton supplies of marijuana, and head either directly for the United States or for rendezvous points where the marijuana is either unloaded at cache sites or off-loaded to smaller boats which can more easily enter the United States undetected. Intelligence reports indicate that large-scale smuggling by vessel, while still very active in the southwest, is increasing along the west coast and the Middle Atlantic and New England coastal areas.

As part of our continuing review of the Patrol Program we are taking a close look at the resource deployment in the entire Tactical Interdiction Program. During fiscal year 1981, Customs completed development of the Patrol Resource Allocation Analysis System (PRAAS), which combines enforcement results, productivity, and intelligence data to provide a detailed guide for deployment of resources. Customs has directed the redeployment of approximately 8 percent of its tactical interdiction workforce from areas of low smuggling threat and low productivity to the high threat Gulf and Southeast. This redeployment, consistent with the concept of a highly mobile tactical interdiction force, will be completed in the first quarter of 1982.

A prime concern of the U.S. Customs Service has been the effectiveness of our Air Interdiction Program as a deterrent against the smuggling of narcotics and contraband via aircraft. After an extensive review of this program in fiscal year 1981, we conducted a 5-month test of a new program design and strategy. Employing a module approach, the test yielded a 173 percent increase over "normal" air interdiction results. Based on these test results, this operational concept will be instituted in the Miami Region in fiscal years 1982-1983. At this time we are implementing only the nonequipment-related methodologies and procedures developed from this strategy on a servicewide basis.

In fiscal year 1981, the Congress appropriated $10 million for enhancement of the Air Interdiction Program. These funds were used to purchase detection and other equipment, much of which is being used in the southeastern United States in disrupting drug trafficking.

The variety and magnitude of the Patrol cases resulting from our interdiction efforts in fiscal year 1981 are exemplified by the following.

At Miami Airport, a Patrol officer, observing the off-loading of a plane from Ecuador, noticed two cardboard boxes that had no identification or manifests. The boxes held 230 pounds of cocaine.

A suspect aircraft was tracked by Customs radar and planes from Central Texas to Orlando, Florida, where it landed. The plane was then tracked to Gatlinburg, Tennessee, where Customs and State officers uncovered 630 pounds of cocaine in boxes and duffel bags inside the craft. It was the largest such seizure in U.S. history.

In a joint Customs/DEA local operation at Seadrift, Texas, officers arrested 14 persons and seized a tractor trailer, 2 mobile homes, 7 weapons, a shrimp boat, and

16 tons of marijuana after the narcotic was off-loaded from the boat onto the tractor trailer.

After a lengthy surveillance, Morgan City, Louisiana, Patrol officers seized a 100-foot barge, a tugboat, one small offload boat, and 160,000 pounds of marijuana. Four arrests were made.

Working on carefully developed information, Patrol officers in Charleston, South Carolina, observed an offload operation involving 9,600 pounds of hashish. The officers seized the hashish, four boats, five offload vans, and two fully automatic weapons, and made eight arrests.

During the month of October 1981, Customs and other agencies seized 59 vessels carrying marijuana from motherships or directly from cache sites in the Bahamas.

INVESTIGATIONS

The U.S. Customs Service is responsible for the investigation of acts in violation of Customs and related laws which include currency, neutrality, fraud, organized crime, white collar crime, smuggling, cargo theft and wildlife investigations.

In keeping with our high law enforcement priority, we have several goals to achieve greater investigative effectiveness. We are emphasizing intelligence, technology, and analysis of performance. This entails identifying high threat, high payoff areas and operations; developing enforcement profiles and criteria; evaluating enforcement performance results; and establishing feedback mechanisms to capitalize on successful approaches and to eliminate operations which are not cost effective.

Special operations, designed specifically to increase enforcement results, will also be emphasized. These operations will focus on disrupting conspiracies and halting illegal export of critical technology; impacting the national drug problem with a special emphasis on reducing heroin smuggling; detecting major losses of revenue and criminal fraud by increasing investigative activity in the trade area, and disrupting the cash flow of narcotics traffickers and other organized crime organizations.

Currently, one of our most notable applications of technology deals with the use of technical equipment in direct support of investigative field activity. This equipment has made a valuable contribution to some of our most successful investigations of violations of narcotic and currency laws and neutrality violations, as well as fraud and theft cases. Novel investigative strategies are being supported by the sophisticated use of concealed closed circuit television and microwave relay systems, electronic tracking devices, sensors and telephone intercept equipment. In cases throughout the country, the technical investigative equipment provided and installed by our Research and Development program is making our evidence-gathering capabilities more complete and thorough, while also allowing us to reduce manpower requirements and costs in support of these investigations. During fiscal year 1983, we intend to continue to selectively acquire and install such equipment for our highest priority investigations.

Our investigative emphasis has incorporated the areas defined by the U.S. Attorney General to receive top priority attention under the National Criminal Justice Program of Federal law enforcement agencies. Fiscal year 1981 was the first full year in which we sharply focused resources on these designated priority areas and isolated significant case activity.

By the end of fiscal year 1981, 64 percent of our cases on hand were in four top priority categories (currency, fraud, critical technology, and neutrality). During fiscal year 1981, these types of cases accounted for 44 percent of arrests, 47 percent of felony convictions, and 62 percent of indictments. During fiscal year 1981, felony convictions increased 29 percent and currency convictions almost doubled (150 in fiscal year 1981; 74 in fiscal year 1980).

During fiscal year 1982 and fiscal year 1983 we will continue this emphasis, particularly expanding the use of the grand jury indictment process. This technique employs close cooperation and sponsorship of U.S. Attorneys even in the investigative stage, allowing for early identification of probable indictments. Currency violations, which make up 43 percent of all our fiscal year 1981 indictments, were supported by this process in a special operation in Miami, tying together a number of related currency investigations. We hope to extend this success to New York and Los Angeles in fiscal year 1982, while simultaneously preparing several additional sites for task force activation in fiscal year 1983.

This approach is among the techniques employed in three new special enforcement efforts. These operations will combine technological and analytic resources to target high-level, high-risk violators.

Operation El Dorado is a national effort directed toward the seizure of multibillion dollar illicit cash flows associated with major narcotics traffickers and other organized criminals. Customs is cooperating in establishing two El Dorado multiagency financial task forces, located in New York and Los Angeles. These task forces will be enhanced by investigative support staff, intelligence analysis, and computer-based information management. Additional major task forces are planned for fiscal years 1982 and 1983.

Operation Exodus is a Customs effort to develop a threat assessment of critical technology export violations and implement a nationally controlled program to detect and prevent illegal exportations. Operation Fair Trade is a national effort to target fraud in two industries, textiles and consumer electronics, by developing threat assessments and violator profiles. Both Exodus and Fair Trade will be supported by the development of automated data bases combining economic and commercial indicators with law enforcement information to identify high risk areas.

Through cooperation with many other local, State, Federal, and foreign agencies, special agents have conducted highly successful investigations which included the following recent cases.

A New Rochelle, New York, firm pleaded guilty to exporting 250 gas-powered welding machines transshipped through West Germany to Iran in violation of Presidential sanctions during the hostage crisis. Special agents built the case with the help of West German customs officials. The firm's owners received prison sentences and fines.

Customs agents and patrol officers arrested 10 men with a hoard of firearms and explosives as they were about to embark by ship from the New Orleans area. A three-month investigation conducted together with Royal Canadian Mounted Police, the State Department, the FBI, and BATF had identified the group as mercenaries planning an armed overthrow of the government of Dominica in the British West Indies.

Four suitcases of Peruvian pre-Columbia artifacts, taken from Peru in violations of Peruvian law, were seized from a New York man at Dulles Airport in Washington. One week later, a search of the man's New York apartment uncovered what experts said was the most extensive collection, public or private, of Peruvian pre-Columbian artifacts anywhere in the world. The collection including some 850 feathered articles, gold trinkets, and textiles dating from 500 B.C., was worth an estimated $500,000. Arrangements were made to return the artifacts to Peru.

A Boston man was arrested and charged under a new statute involving sexual exploitation of minors after undercover Customs and Postal Service agents bought from him and his associates 24 imported reels of pornographic film.

Agents arrested 6 men at a Houston airport and seized an illegal shipment of 1,400 small arms, 350 grenade launchers, and several thousand magazines of ammunition about to be flown to South Africa.

Customs agents and New York City police arrested suspects charged with multiple thefts of property from Customs custody. The arrests climaxed a five-year investigation that uncovered organized crime involvement in cargo theft conspiracies at JFK Airport.

Customs agents, acting on a tip, intercepted a Colombian woman as she was preparing to leave Miami Airport for Bogota. An examination of her luggage revealed six Spanish versions of the popular game, "Monopoly." Packed neatly in the games was a total of nearly $1.5 million in undeclared U.S. currency. Investigation revealed that the money was destined for known large-scale drug dealers in Colombia.

Agents from Customs, IRS, and DEA converged on Tampa Airport in helicopters and jeeps to stop a private plane from taking off for the Bahamas. Aboard was $500,000 in unreported drug smugglers' currency ticketed for a Bahamas bank "laundry."

Special agents in San Antonio, Texas, arrested six men, including two high-ranking Nicaraguan Air Force officials, who were attempting to smuggle two U.S. helicopters to Nicaragua in violation of the Arms Export Control Act.

Finally, special agents in Miami seized $3.5 million in unreported currency being transported by a Colombian currency exchange firm and an additional $5.3 million located in a related bank account.

COOPERATION WITH FEDERAL AGENCIES

While I intend to seek closer cooperation with other law enforcement agencies, I would like to emphasize that Customs works with other Federal agencies in several capacities beyond joint enforcement efforts. As mentioned earlier in this statement, Customs currently works with the Immigration and Naturalization Service and the

Department of Agriculture in operating Citizen By-Pass, One-Stop, and ASIST inspection and control passenger processing systems at various airports.

Another major Customs responsibility is the facilitation and control of international trade. To accomplish this effectively requires coordination and cooperation with several U.S. agencies that set trade policy as well as with foreign governments.

Customs advises Federal agencies whether the trade proposals under consideration are feasible from an operational and legal standpoint. Once a trade policy is enacted, then Customs is responsible for implementating it, that is, issuing operational instructions; modifying operational procedures and/or regulations, if warranted; monitoring implementation; and resolving problems. Our advisory trade policy role has been used in support of such U.S. agencies as: the U.S. Trade Representative in international trade negotiations; the International Trade Commission in tariff legislation and tariff schedule changes; the Department of Energy in its oil import licensing; the Department of Commerce in its steel trigger price mechanism, textile quotas and visas, and antidumping and countervailing duty actions; and the Department of Agriculture in its cheese and other commodity licenses and quotas. These are only some of the U.S. agencies Customs supports in enforcing more than 400 laws and regulations of some 40 Federal agencies.

As the repository of Bank Secrecy Act information on cash transactions in excess of $10,000 and cash exportations of $5,000 or more, Customs has an obligation to support other agency efforts with this data. We have recently disseminated information packages to Federal, State, local, and foreign enforcement agencies describing provisions of the Act. Eighteen agencies are now assessing Bank Secrecy Act data. We are also establishing a Financial Law Enforcement Center (FLEC) to aid in the targeting, collection, and development of intelligence to support not only field agents, but existing financial and El Dorado task forces and Federal agencies involved in financial investigations.

We are also involved in cooperative technical ventures that include exchanging equipment and information with many agencies in order to further reduce enforcement costs and accelerate the useful operational development of new equipment. We have provided technical advice to the Agriculture and State Departments that led to purchases of several X-ray systems similar to those which we developed. We have also supported or exchanged technical equipment with the Drug Enforcement Administration, the Federal Bureau of Investigation, the Internal Revenue Service, the Bureau of Alcohol, Tobacco and Firearms, the Immigration and Naturalization Service, and the Environmental Protection Agency. These exchanges have had enforcement payoffs for all the parties involved, and we intend to continue such cooperative activity in fiscal 1983.

Customs welcomes the possibility of increased cooperation with the Department of Defense which could arise as the result of the recent changes to the Posse Comitatus statute. A recent joint Customs/Military enforcement operation showed that Defense assistance in identifying suspected smuggler aircraft intrusions and relaying this information to Customs can add substantially to our interdiction results.

INTERNATIONAL COOPERATION

The U.S. Customs Service is also very active in the international arena and is deeply committed to the facilitation and standardization of international trade and travel. Work has been progressing since 1973 toward the development of an international system of nomenclature for use in international trade. This work, which is being done by the Harmonized System Committee of the Customs Cooperation Council, was undertaken because private business interests and governments wanted an international classification system which could serve as a basis for compatible Customs tariffs, international trade statistics and to facilitate the movement of goods. To that end, on August 24, 1981, the President requested the International Trade Commission to prepare a conversion of the Tariff Schedules of the United States into the structure of the Harmonized System. In his request, the President instructed the International Trade Commission to avail itself of the expertise and services of the U.S. Customs Service.

Customs continues to act as the principal agency in the development of the international system. Most of the technical work has been completed and it is expected that the final technical provisions will be formulated by the end of May 1982. Customs has also been formulating a new international convention on nomenclature to put the system into effect. In both of these efforts, Customs has coordinated U.S. Government participation for final approval by the Trade Policy Staff Committee of the Office of the United States Trade Representative, and has presented the positions to the Harmonized System Committee. The negotiations to arrive at a final convention are expected to go on through 1983.

For U.S. implementation of the system, Customs is working closely with the International Trade Commission (ITC). As the ITC prepares drafts of the new tariff, they are extensively reviewed at Customs Headquarters and by National Import Specialists to insure that the new tariff covers all of the trade items presently covered by the Tariff Schedules of the U.S. Annotated (TSUSA) and that the new provisions are drafted such as to facilitate their administration. It is expected that this work will be completed in June of 1983. It should be noted that this task involves the restructuring of the entire tariff system with statistical annotations; the final result is expected to contain approximately 10,000 tariff rate and statistical lines.

International enforcement efforts have also progressed and improved. During 1980, the responsibility for conducting antidumping and countervailing duty investigations was transferred to the Commerce Department, enabling the foreign investigative staff to significantly increase support of our priority case and financial investigations. Italy's Guardia di Finanze assisted Rome Customs agents in a half-million-dollar seizure in support of a DEA/Customs case in New York, which indicted 17 members of an international heroin manufacturing and trafficking ring. Italy also seized a ship involved in a California-based narcotics distribution operation. Hong Kong and Bonn have been very active in gathering intelligence to support Customs Financial Data Base, while Hong Kong has also been especially active in textile quota enforcement. I would also like to note that Bonn has nearly quadrupled its number of high technology export control cases in the last four years (12 cases in 1978 and 45 cases in 1981), with the same staffing resources.

The U.S. Customs Service enjoys mutually beneficial bilateral cooperation with Customs administration in countries of particular importance to the United States. For example, the U.S. Customs Service has an active program of mutual assistance with Mexican Customs under the 1976 Mexican-American Mutual Customs Assistance Agreement. This cooperation has been beneficial to both the United States and Mexico and has resulted in important arrests and seizures. In addition, we recently agreed with the Japanese Customs and Tariff Bureau to establish a Customs Liaison Committee which will meet periodically in Japan and the U.S. This Committee would be a good opportunity to discuss Japanese procedures perceived to be non-tariff barriers to trade and to consider other topics such as mutual assistance on enforcement matters and general facilitation of trade.

Customs will participate in an Interpol seminar on investigating financial crimes during February 1982. We will present a lecture on assets attachment and Bank Secrecy Act utilization to law enforcement personnel from more than 60 countries. To encourage the exchange of information on international currency movements, we are working with Treasury Department staff on revised dissemination guidelines to provide for simplified law enforcement access.

Customs ability to make practical use of modern enforcement equipment is now well recognized by Customs organizations throughout the world. A major precedent was set in fiscal 1981 with our first international agreement on research and development, in which U.S. Customs and Canada Revenue Customs and Excise are performing a joint project in the investigation of nuclear magnetic resonance techniques for the detection of concealed narcotics. The two agencies are sharing the technical direction and funding of this project, with further cooperative research and development ventures also under consideration.

CONCLUSION

In my closing remarks, I would like to reiterate that Customs basic mission is to collect the revenue from imports and to enforce Customs and related laws. Customs fulfills this mission in a highly dynamic environment performing a variety of functions which impact the traveling public, the import and trade community, the health and welfare of American business and the general public. The activities performed by Customs in executing its responsibilities call for increasingly sophisticated operational and enforcement techniques and the application of a wide variety of skills and disciplines.

With this Administration's determination to crack down on crime and strengthen the economy, I can see Customs playing an increasingly important role in the near future. More must be done to strengthen Customs internal operations and to devise truly effective programs to combat smuggling and protect the revenue.

I believe the strategy I have presented here is the direction in which Customs must go. I see our efforts as culminating in tangible results in a number of areas. Drug seizures and seizures of other contraband will increase. Drug trafficking will be disrupted. Revenue will increase. The illegal export of critical technology to Eastern bloc countries will be reduced. Paperwork and regulations imposed on the trade community will be reduced. Finally, passenger and cargo delays will be reduced.

While we are reducing Customs positions, I intend to make real progress on these priorities in terms of increased enforcement results, improved cost effectiveness, better service, and a modernized Customs Service.

This concludes my introductory statement. We will be pleased to discuss any of the details of our request and answer any questions you or the Members may have.

Chairman GIBBONS. Thank you, Mr. Von Raab. And all of us realize who have been at this business any time at all that trimming the Federal budget is always easy to talk about but painful as the devil to do. And I think all of us are generally committed to reducing the cost of Government if we can in any way possible.

Here we are dealing with a revenue function of the Government as well as a police protection function of the Government. The Secretary of the Treasury has recognized that he needs additional IRS agents just to collect the taxes that are due and to carry out the functions that IRS does. And he has asked for additional agents, which means additional budgetary authority.

But you, on the other hand, have asked for a reduction, a reduction that seems rather sharp to me. My briefing papers say it will cost us 1,200 customs inspectors, 35 agents, and 240 import specialists.

I guess my question to you is what impact is this going to have on carrying out the functions that you are to do to prevent smuggling and to collect duties, to carry out your police functions and your revenue functions?

Mr. VON RAAB. Well, we can break those into two areas. With respect to the revenue functions, it is important to understand the difference between the Internal Revenue Service and the Customs Service. One of the major differences is that the Internal Revenue Service works directly with the taxpayer and, therefore, any increases in their policing or compliance function of, for that matter, perhaps even some of their advisory functions—I say that because I do not know much more about the Internal Revenue Service than does any other taxpayer—will result in significant increases in revenue for each position applied to that task.

The Customs Service, on the other hand, deals with the importing community, largely through customs brokers. These are highly sophisticated agents of the importing community who do the bulk of the work necessary to enter and pay duties to the Customs Service. For that reason, the number of personnel involved in the revenue collection function in the Customs Service does not bear the same relationship to possible increases in revenue as it does in the Internal Revenue Service.

Therefore, in order for us to increase revenues, it is more important for the Customs Service to develop better and more efficient procedures, to be more effective in the collection of debt, to obtain fees sooner rather than later. These are the types of changes that we would like to see brought into effect. And these are not the kinds of changes that require heavy infusions of large number of personnel. Actually they are the kinds of changes that can be made with a lesser number of personnel.

That is my answer to the question of whether we need more people in Customs in order to raise more revenues. I cannot deny that if we put on a few inspectors, it is possible we could cause someone who might not have paid his duties to remit them. But in the long run, increased revenues will come from better procedures and more effective collection of fees and debt.

On the enforcement side, it has become apparent to me that the Customs approach which has been followed over the years of saturating the border with inspectors blindly groping for possible contraband is probably not the best approach.

To return to some of Congressman Stark's comments, a much more effective way to prevent the passage of contraband across our borders is to be a little smarter about it, and not just saturate the border.

Therefore, we are moving to selectivity, to mobile special enforcement teams, to better intelligence, to better coordination of intelligence. The answer to better law enforcement is to be smarter about it and not just to flood the border with personnel.

Chairman **Gibbons**. If I may interrupt, I have listened to this argument about being smarter about it for years. I have watched it in the police departments of the various cities of the United States.

And it seems to me that one of the reasons that crime runs rampant on our streets is that there just are not enough police officers out there. You have a call to a police agency here in Washington or in my own city of Tampa, and it takes hours for them to respond.

It does no good to see somebody lurking around your property suspiciously in the night or in the daytime if you cannot get some kind of police protection. And the same thing holds true in your business. If people think, just as Mr. Stark said, well, you know, you have moved everybody to Florida, and we are not objecting to that, but you moved everybody to Florida so everybody on the street knows that California is wide open now. So they get an airplane to get to California instead of Florida with their contraband or a boat ticket or they redivert their ship around that way.

I do not think we can outsmart these people entirely. We ought to use all the smarts we have. But I frankly have to be convinced that we can afford to drop 1,200 inspectors and still do a decent job. Where are you going to take these 1,200 people from? The 1,200 inspectors now we are talking about, that is not all your people, but that is 1,200. What areas are they going to come from? What geographical parts of the United States are they going to come from?

Mr. **Von Raab**. We do not have a specific plan for that. Right now we are looking at the various borders, evaluating which are the lowest risk areas for possible contraband and looking at those areas into which we can bring some of our automated systems in order to lessen the workload for commercial purposes. But I do not have a specific plan as to where those 1,200 inspectors would be drawn from.

Chairman **Gibbons**. Let us see. I am sure there are other questions here. I do not want to monopolize this. Let me see. In order of appearance we have Mr. Bailey, Mr. Frenzel, Mr. Pease, Mr. Hance, and then we have Mr. Heftel and Mr. Moore. So would you like to go ahead? Who wants to be recognized?

Mr. **Frenzel**. Mr. Chairman.

Chairman **Gibbons**. Mr. Frenzel.

Mr. **Frenzel**. Mr. Chairman and Mr. Commissioner, I thank you for your testimony. I think I feel the same nervousness about this budget presentation as the chairman does. On this committee we have been working for as long as we have had this committee on the problem of Customs overtime and I think you are aware of that difficulty.

Here you have an agency which we have had to limit in past years to $25,000 worth of overtime for employees because it was paying $40,000 worth of overtime to employees. The percentage of this kind of labor in your department is, to say the least, extraordinary, and now you come in and say you are going to do your job with 1,200 less inspectors.

Does that mean you intend to double your overtime?

Mr. **Von Raab**. No, it does not.

Mr. **Frenzel**. What are you going to do about the overtime problem which you have not been able to manage, at least over the last 6 years? How in Heaven's name are you going to manage it with less employees?

Mr. **Von Raab**. Well, I am not—I realize there have been problems with respect to certain individuals for overtime in the Customs Service. However, I do not believe it is correct to say that Customs has not been able to manage its overtime over the past few years.

Mr. **Frenzel**. I would sure like some evidence to the contrary.

Mr. **Archey**. Mr. Frenzel, I think that we had this discussion a year ago about this time.

Mr. **Frenzel**. And the year before that and the year before that and the year before that.

Mr. **Archey**. For the record, I think one thing that can be said—and I think on behalf of Customs needs to be said—1979 to 1980, 1980 to 1981, and now 1981 to 1982, even with the cap being a part of that, because of the effective management practices we instituted regarding the use of overtime, each year there has been not only a reduction in the overall overtime in the 1911 account, but a reduction in the reimbursable overtime for 3 consecutive years as well. This is true despite the fact that even with the cap we added more inspectors up until a year ago.

More people were in the overtime account. But the point I am getting at is, we had to go at this with the union. We have had some serious labor relations issues in which, for the most part, we have prevailed. For example, we have 14 ports of entry that have gone to multiple shifts in just the last year for the purpose of reducing overtime.

We are presently spending almost $800,000 just to administer the overtime cap. The other thing is we have not only gone to shifts, but we have gone to general unlading of cargo—rather than having three inspectors with three ships, we have had one looking at the three—and a number of other practices which have kept the 1911 account, in particular, and its reimbursable aspects under control.

Mr. **Frenzel**. Well, I thank you for the explanation, but I must tell you that this is a continuing source of concern and, as you know, I would just as soon get rid of the 1911 deal. But I think a number of my colleagues do not feel as strongly as I do about that.

The other thing that bothers me is we have talked a lot about control of narcotics and so on. It seems to me that is perhaps the smallest part of your job. The biggest part of your job is to see that goods and people come into the United States, that we protect our revenue through the flow of those goods, and that we get our people in and out of the country with some kind of speed and relative convenience for them.

I have not been around in a couple of years, but when we did inspect some of your facilities and procedures we found that you were actually physically inspecting very little of the goods that come into this country. As the Commissioner indicated, I do not want to inspect everything. We do have to go to sampling programs. I think those are good.

Nevertheless, we found a great proportion of classification specialists and it seemed to be a disproportionately small number of inspectors. And yet whenever we talk about layoffs we talk about laying off inspectors. I wonder if you would comment on that. You do not suppose you could stand to get rid of a few paperpushers and retain a few inspectors, do you?

Mr. VON RAAB. We have been looking into the issue of import specialists, the number of them and the placement of them. And we do agree with you that the way the Customs Service operates at present with respect to its import specialists is probably less efficient than it could be.

For that reason, we are developing a plan to reduce the number of areas in which we have import specialists and bring them to more central locations. We are thinking tentatively, at this point, of reducing the number of areas from about 70 to 40. This should result over a period of time not only in the reduction of the number of import specialists but, more importantly, in their being more effective and more efficient, their decisions being more uniform, and their knowledge of the commodities for which they are responsible becoming much more complete.

We feel that this approach is the proper one to take in order to make our classification and value operation more effective.

Mr. FRENZEL. Thank you.

Do you have a proposal to eliminate the nonreimbursement of overtime on Sundays for Customs officials?

Mr. ARCHEY. Yes.

Mr. FRENZEL. Are you going to propose that legislation?

Mr. VON RAAB. I believe there is a House bill to that effect.

Mr. FRENZEL. The bill has been introduced by anyone other than myself?

Mr. VON RAAB. H.R. 4800.

Mr. FRENZEL. OK, we will look it up. But Customs is blessing that bill?

Mr. VON RAAB. Yes.

Mr. FRENZEL. OK. There is a section of the law entitled 592, which was extensively rewritten by this subcommittee in 1978. You have developed some guidelines for that which you have kept secured in your inside coat pocket by fishhooks and industry is very anxious to have you put those guidelines out. What are your plans with respect to section 592?

Mr. Von Raab. I would like to have Mr. De Angelus answer that question.

Mr. De Angelus. Mr. Frenzel, we are working on those and we hope to issue them soon. In the past we have issued guidelines without sufficient consultation with the people on whom they would impact and we have had consultations.

We are trying to work out the practicalities of putting in a system which offers guidelines and at the same time permits sufficient flexibility for our district directors to recognize true areas in which they need to further reduce the amounts established in the guidelines.

We hope very soon, within a month or two, to have those guidelines published and we believe they will be workable.

Mr. Frenzel. Well, I thank you. This is very important. This committee worked long and hard to get those revisions passed. We made some very definitive statement in our committee report and statements to Customs officials, and we indicated that we did not think that the maximum penalty was to be the invariable final penalty in all respects.

You have been working on, in fact you have had guidelines which you have had closeted somewhere for a couple of years, and I just think it is ridiculous that you have not been able to move forward.

I certainly hope that you will. Perhaps we can find an incentive for you in this authorization that will encourage you to move those forward.

Mr. Chairman, I have some other questions, but I would rather have the other members have a chance.

Chairman Gibbons. All right. Mr. Heftel, do you have questions?

Mr. Heftel. I thank you very much, Mr. Chairman. I am not a member of this subcommittee.

Chairman Gibbons. We are delighted to have you here, though.

Mr. Heftel. I do want to, if I may, Mr. Commissioner, relate an experience I had this past week in Hawaii. I was telling my constituents and the media why it did make sense for those who use Government services to pay for them and why perhaps the President's New Federalism proposal does make sense to give both the responsibilities and the decisionmaking process to the local or State government, which is closer to the people.

But in the course of the week in Hawaii I also learned something that was disturbing; namely, that our method of supporting our airport system in Hawaii has apparently been placed in jeopardy by what may be a change, if you will, of policy within the Customs Service.

We have in operation something termed "duty-free shops." In order to operate a duty-free shop, a person or company must negotiate with the State and pay a percentage of sales as a concession fee to the State. Now in the case of Hawaii the concession fee from sales from the duty-fee shops in 1981 totaled $36 million, or 43 percent of the operating overhead of our airport system.

It appears, though, that you are now tolerating something called dummy shops or, in my vernacular, curbside vendors, where the operators pay nothing to anyone for the privilege of selling. Before I go on discussing the problem and my concerns, perhaps you could tell me where this issue rests and whether there is reason for me to be concerned, and whether or not the traditional treatment of duty-free shops is being placed in jeopardy by Customs policy.

Mr. **Von Rabb**. It has recently been brought to my attention that there is some concern about some of Customs' procedures with respect to airport duty-free shops. I am also aware of the importance of the franchisees that are paid by operators of these shops to the airports and the apparent linkage of the presence of those shops to our procedures.

We are looking at that matter because it has been brought to our attention, and I am not sure whether we have reached any sort of final position on that. But I would like to ask Mr. De Angelus to comment in perhaps more detail about this problem.

Mr. **De Angelus**. Mr. Heftel, we have not changed our policy but have recently issued what we thought was a clarification of our policy. Our policy of longstanding has been not to permit bona fide duty-free operations more than 3 miles from the airport itself, with one exception, and that exception does exist in Waikiki in Hawaii.

However, Customs has long also tried to administer the tariff laws impartially, to issue permits and regulations and to not affect the economic balance in the marketplace. The fact is that we have no jurisdiction over someone setting up a shop with dummy merchandise which in fact then is duty paid. Customs has no authority to regulate the establishment of those.

What it does have a responsibility to do is to insure that goods removed from bonded warehouses, as are duty-free goods—are actually exported and under Customs supervision. Consequently, in the Hawaii situation and in others, Customs will not permit a potential duty-free operator to begin operations until he has received the necessary clearances from the airport authority or the bridge authorities. So we are not trying to restrain trade.

But we have to be certain that the airport or the bridge authority agrees to the methods and procedures which will guarantee the bona fide export of these goods. So we basically have not changed our policy. We did try to clarify it. There has been some misunderstanding, but, in fact, where we are being criticized in that we do not issue the permits first. We just believe that we cannot issue the permit until we are assured by the airport authority or the bridge authority that the merchandise will, in fact, be exported.

Mr. **Heftel**. I would like to be a little more specific, if I may. Are you telling me that you will not take any action that would result in dummy or curbside vendors operating in the Honolulu airports unless these vendors first receive the approval of the State of Hawaii and the airport authority? Is that what you are telling me, sir?

Mr. **De Angleus**. We are saying that we will not permit goods to be exported from a bonded warehouse in a duty-free mode unless the applicant for this permit can assure us that he has the necessary clearances, whether it be from the airport authority or bridge authority, which will guarantee the delivery of those goods from the warehouse to the plane without contingency of diversion.

So he would have to get guarantees for us from the airport that he can deliver the merchandise under effective Customs supervision.

Mr. **Heftel**. I do not like to be redundant, but because I still am not clear let me still ask it another way. We are dealing in half of the revenues that support the Hawaii airport system, so I have to be a little more concerned than if we were discussing an airport where such concession fees may represent one-tenth of 1 percent of those operating costs.

So long as the State of Hawaii and the airport authority do not approve the sale of duty-free goods by any entity, will you tell me that you will not permit or license anyone to do so in the absence of that State authority? Please respond in the form that I pose this question, because I am not sure what you have said means, and it might not lead to the conclusion I am trying to achieve.

Mr. **De Angelus**. Mr. Heftel, I am not an attorney and I may not be precise in my terms, so maybe we will have to get back to you later. Let me try to say it this way.

Our policy has been——

Mr. **Heftel**. Let me interrupt, sir. You say, you had a policy and the State had a policy and they survived for a great number of years. Something has happened in the Customs Service to affect that policy and I was not a part of it and the State was not a part of it, and so only you know what you did.

What I am trying to suggest is we must have assurance that we are in the same position we were in before you took action, the nature of which we do not know.

Mr. **De Angelus**. I am sorry, Mr. Heftel. You see, there has been no change in Honolulu as yet. Our District Director on the spot has the authority to make the determination. We issue guidelines here. Our guidelines are basically that there cannot be a bona fide, duty-free shop. That means one in which non-duty paid merchandise is displayed; that before an operator, potential operator, can be granted a permit to operate, there must be available resources, even though they are reimburseable.

We cannot create them. They have to exist. So the resources—Customs resources—have to be available for the reimbursement. And, in addition, the district director must insure through the potential duty-free operator's arrangements with the airport authorities—and I am not certain what airport authorities means in the legal sense—that the goods will be guaranteed of export without contingency of diversion.

The status is, with regard to Honolulu now, there has been no change yet. No one is operating outside that mode and the district director has not ruled on a current application before him yet because of the assurances that must be obtained from whatever—I do not know if that is the State of Hawaii.

Mr. **Heftel**. To clarify, Mr. Chairman, I hate to take so much time, but I am afraid I do not know whether——

Chairman **Gibbons**. Go right ahead.

Mr. **Heftel**. Thank you. The system in place is one in which the State determines who will have a license to operate and what percentage they will pay in so doing. As I think you know, there is a company that wants to operate in such a way that they would not have to pay a fee to the State.

I will not go through the details of how they will do it, but you are totally familiar with it. In fact, I think you are more familiar, perhaps, by far than I and know all the facts far better than I.

But if in fact you allow this company or applicant with which you are so familiar to operate in a way that does not necessitate paying fees to the State, because of the fees they pay to a variety of people—whomever they may be—then the existing operator will simply say he cannot compete if he must pay $36 million in concession fees to the State.

Therefore, I must quit operating the way I do and adopt the mode of the company now operating in competition with me. And, therefore, the State is the loser. I think that you must be aware of enough of the facts to realize that we cannot be relaxed or just take on faith anything now told to us.

I would appreciate if you could respond in writing on this subject. We must have the assurance in unequivocal language that no operator will be allowed to function without paying fees established by the State and under the approval and control of the State.

Mr. **Von Raab**. The matter that we are discussing right now is before the district director in Honolulu for his determination. The customs requirement is that we be assured, that some responsible authority will assure us, that the goods will make it onto the aircraft without being diverted.

As much as we would like to, and we hope it will be the case, that the decision will result in the franchise fees of Honolulu airport being maintained at their existing level, we will not be able to assure you that customs will make a decision that will guarantee that franchise fees will be paid to the Honolulu airport by any duty-free operator because that is not, as we see it now, the requirement under our regulation.

Our regulation is to insure that the goods remain outside of the domestic arena, so to speak, and therefore remain in bond from the bonded warehouse until they leave the country. The way we do that is to make sure that some authority so certifies—in the case of Honolulu, quite probably the airport authority—but in the Los Angeles situation I believe that airlines have themselves certify to this.

So the reason we are unable to give you an answer is that until the facts of this case are completely reviewed, we are not certain whether, in the case of Honolulu, it will be the airport authority that will be required to make this certification. But we will be happy to answer your question in writing.

Mr. **Heftel**. Are you telling me that you will continue the practice of honoring whatever decision is made by the State and the airport authority?

Mr. **Von Raab**. If that is the proper authority. I am saying that in Los Angeles I am told that the airline itself can make that decision.

Mr. **Heftel**. In Hawaii it would be the airport authority.

Mr. **Von Raab**. If that is the case, then you should not have a problem.

Mr. **Heftel**. You will not license anyone who has not been authorized by the regulatory body that is the authority.

Mr. **Von Raab**. The authority that will assure us that goods will not reenter domestic commerce. And I do not know until the facts in Honolulu are reviewed by the district director, a decision is made, and it may be appealed up, depending on which way it goes.

I cannot tell you which way it is going to go because, although we are aware of a lot of the concepts involved in this, and we have had extensive discussions, I think all parties remain confused as to what customs' obligations and responsibilities are with respect to this particular problem. We understand the concern of the airport operators on the franchise fees, and I hope we will be able to help, but that is not our primary obligation.

Mr. **Heftel**. But we do know that a new company has endeavored to figure out a way to sell merchandise in the so-called dummy shops which would result in their not having to pay fees to the State, and that this new company is working with customs to obtain that approval, and to do it in a way that will be injurious to the State of Hawaii. They are working with you to get that done. Therefore, you are the only ones who know what they are doing.

Mr. **Von Raab**. I understand. Well, we are obligated to deal with anyone who wants to come to customs and to use its bonded warehouses, so in that case, the district director is dealing with this new company, and the new company is trying to persuade the district director to adopt this different way of doing business.

At this point the district director has not agreed to do that, so I would say that the most frustrated party in this exercise ritht now is the new company, who cannot get approval out of the district director.

Mr. **Heftel**. Sir, if I were a company trying to do business in a way that would not necessitate paying $36 million in fees, I would be pretty interested in it. I think we have got to be, I hope, a little bit smarter than to tell them to go ahead in a manner that we are not aware of because they are not coming to us for approval. They are coming to you and we are bringing the problem back to you because we do not know how it is being handled and we are concerned.

I think we do have the facts that we need on the record now, Mr. Chairman, and we will carry forward now in writing and in additional meetings. Thank you very much, Mr. Chairman.

Chairman **Gibbons**. Fine. Mr. Pease.

Mr. **Pease**. Mr. Chairman, I do not have a question, but I did want to just comment on the questions that you and Mr. Frenzel raised about the adequacy of the funding for the Customs Service for the next fiscal year.

I think what we have today illustrates a frustrating aspect of the congressional-administration budgeting process. I dare say that Mr. Von Raab may have some private feelings about the adequacy of the funding that has been proposed for the Customs Service, but, of course, those decisions—the final decisions—have been made by the Office of Management and Budget. Once that happens, the administration witnesses are bound to come before this committee and other authorizing committees and be good soldiers and duly support the claim that of course they can provide good service with less money.

We in Congress are put in a difficult position because if we then try to protect the administration from itself and restore cuts in fundings for important services like the Customs Service, then the administration is free to go around saying that Congress once again forced money onto the administration and ballooned the budget, spent money that the administration did not even ask for and did not want.

I do not see any solution to that at the moment, but I do think it is unfortunate that we cannot have some system which allows the experts who should know what they want to be completely forthright with us and not be honorbound to support the position arrived at by the Office of Management and Budget.

Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you. I have some more questions for the Commissioner. I want to talk now about the assist test that has been carried on in Miami and Los Angeles International Airport.

What are the observations and recommendations of Customs on the assist test?

Mr. VON RAAB. Our final observations and recommendations will be presented in written form in, I think, about 1 or 2 weeks. However, I am happy to comment on the interim results of the assist test.

The results basically show that with respect to facilitation there was an improved processing rate in Los Angeles and a slight decrease in the processing rate in Miami. With respect to enforcement, the overall results show a decrease in most enforcement categories.

With respect to revenue collections, Miami collections are up slightly less than 10 percent and Los Angeles collections are up 55 percent.

The system seems to have potential for staff savings from the two-stop inspection system. However, it is more costly than the one-stop system. Those are some of the preliminary results of our review of assist.

Chairman GIBBONS. Do you intend to continue to experiement on ways of cutting down costs with these types of tests?

Mr. VON RAAB. It is our plan to accompany the final results of the assist test with a proposal or a conceptual plan for what we are terming the large airport processing scheme, which would incorporate some of the beneficial characteristics of the assist test but would, we hope, support the assist technique in the enforcement area and, at the same time, bring more of a red-green approach on the facilitation area.

That scheme has been worked out by Customs at the staff level. I am reviewing it now and we will, over the next few weeks, be having meetings with the Immigration and Naturalization Service in order to bring them on board, which I think we will be able to do, with respect to that system.

We have a more difficult task in front of us with respect to the Agriculture Plant and Health Inspection Service, who are less oriented toward facilitation and a little more concerned about saturation inspection.

Chairman GIBBONS. Now we have three distinct, separate, sovereign Federal agencies operating at each international airport—the

Immigration and Naturalization Service, the Customs Service, and the Agriculture Department. As far as I know neither one of you are firing shots at each other, but would it be possible for us to get these three Federal agencies all together under one agency at the airport?

Mr. VON RAAB. Well, we have over the past 2 months begun to hold regular meetings between our respective agencies. In one case the three of us met. It is hard for me to say whether it would be possible to bring the three agencies together because that, like all Government reorganization, involves more than just the application of pure management science.

I think that the functions that are performed at the airports probably could be managed more effectively under one authority. I do not know whether that necessarily means you have to bring the agencies together or whether you would, as they do in Canada, provide more delegation to one or the other agency to perform the responsibilities. We have, to some degree, done this with aphids, although, as you are probably aware, when the assist test was begun in Miami and in Los Angeles, the Agriculture Department was somewhat nervous about it, withdrew to some degree, and placed a number of extra inspectors in order to insure that this new approach in no way lessened the enforcement that they feel is necessary of the agriculture laws.

Chairman GIBBONS. Well, it would seem to me that in the executive branch of the Government you all could get together and sort out the management responsibilities, the technical responsibilities and that there would certainly be—that would be one way you could save some personnel, scheduling and everything else rather than having three people check the same, roughly the same function—that is, of entry.

But I know maybe I am dreaming.

Mr. VON RAAB. Well, there have been any number of studies on that matter. You are right. It could be performed better under one authority.

Chairman GIBBONS. If you cut down the number of Customs personnel what impact is this going to have on foreign trade zones and on the administration of the trigger-price mechanism? When they get through all these lawsuits I am sure the steel companies will force the trigger-price mechanism back on some administration. If they cannot, their unions will and the quotas for monitoring textile agreements and things like that.

Mr. VON RAAB. One of the changes that Customs is making in order to be more facilitative, and it has a side effect of requiring less personnel, is to move to more of a postaudit approach to bonded warehouses and to foreign trade zones.

I would note at this point that although we talk of 1,200 inspectors, 300 of those are inspectors that would be in the bonded warehouse, and therefore are reimbursable positions. So those are covered by this new approach.

If you will look at some of the foreign trade zones and their applications you will see that the manpower necessary to staff those is extremely limited. In most cases it is often necessary to use only one inspector if we receive the proper procedural commitments from the operator of the trade zone.

Chairman GIBBONS. So you do not think the operator of the trade zone, then, will be affected at all by this cut. Is that right?

Mr. VON RAAB. That is correct.

Chairman GIBBONS. All right. Your function is not only to control the importation of goods but also the export of some of our critical and strategic technology. How are all these budget cuts going to affect that?

Mr. VON RAAB. Well, I would like to ask Mr. Corcoran to explain some of the efforts that we are making with respect to export technology. We have an operation called Operation Exodus which I think you will probably find interesting, and we will, by describing that, answer your question.

Mr. CORCORAN. Yes, sir. We have initiated a program called Exodus which, quite simply, is a task force of special agents and our inspectors and import specialists and auditors focusing on the export of munitions control items and, as you mentioned, critical technology, high technology particularly being diverted to the Soviet Union.

What we are doing in 12 major cities is concentrating on intelligence from other agencies, as well as ourselves and the Commerce Department primarily, on those shipments which are being diverted through third countries or going directly, without the proper licensing, to the Soviet Bloc countries, as well as some other countries from which that type of material is embargoed.

This is being done by diverting our agents and inspectors and some of our auditors from lower priority operations and lower priority investigations, and we have, in the first 2 months of this operation, had some remarkable successes.

Chairman GIBBONS. Well, I wish you good luck. I hope you can accept all these budget cuts and do all the job you have to do. I am going to avoid the airports in the peak seasons this summer because I am sure there is going to be a lot of fine American citizens out there screaming and hollering about how they are being held up.

Any further questions?

Mr. FRENZEL. Mr. Chairman, at the beginning of the Commissioner's testimony he indicated that he would be looking for user charges. He mentioned H.R. 4800, which we have subsequently discovered is the Airport and Airways Trust Fund bill. This committee did support a Customs request for some specific user charges which the committee thought made sense.

We hope we will dispatch that bill somewhere along the line. However, in previous years Customs has come in—previous years being 1979, and 1980, I believe—asking for an acceleration of the collection of Customs fees, which this committee has always felt was contrary to commercial practice and would place an unnecessary burden on importing industries.

Can the Commissioner tell us if he intends to make any such recommendations this year?

Mr. DE ANGELUS. Congressman Frenzel, we have a number of proposals under discussion within the administration which have not been approved to reflect and collect the costs of Customs services from those areas which we believe directly benefit. In the commercial area we are proposing various type fees which would raise approximately $220 million.

Mr. **Frenzel**. You are not prepared at this time to tell us if the change that I suggested is going to survive your process.

Mr. **De Angelus**. I am unclear about the change.

Mr. **Frenzel**. Right now or, rather, in the past you have suggested that Customs duties payment be accelerated, be paid within a lesser number of days than is the current practice.

Mr. **Von Raab**. I am sorry. I misunderstood your question. We have been looking very carefully at the process of entry summary liquidation. We would like very much to move to a more or less integrated or coordinated system for this commercial process.

In examining this, I have become convinced that 10 days is probably more time than any responsible broker needs in order to pay or to complete his payment. Whether 3 days is proper or not is something that I do not really understand, but I am personally convinced that some number of days are being given away by the Federal Government and what we merely have here is a transfer of whatever interest costs are involved in the carrying of those 3 or 4 days.

The first-class brokers for the most modern systems tell us that they have no problem in paying their fees within 3 days. Now that may be too much to expect. Therefore, some longer period may be proper. But it is my personal opinion that 10 days is basically a giveaway to the brokerage or the importing community of moneys that the Federal Government should be collecting earlier.

I would like to comment further about an additional problem that we are facing in the debt collection area. We have recently received an adverse decision in a case called *Heraeus-Amersil* in which a court found that the Customs Service had no right to receive its fees at the time of the filing entry summary if a protest was made and that the importer has a right to withhold the payment of these fees throughout the entire period which was made available to him to protest and to follow his administrative remedies.

As a result, we are now faced with a situation in which it is possible that importers could refuse to pay their fees not only after 10 days—these are additional fees over the estimated fees—but for that entire period prior to the final determination of this amount which, given the speed with which most of the courts and administrative procedures work, could be up to 1 year.

So I would only point out that the Customs Service is facing more and more problems in the timing of the payment of fees and in the collection of debts, thereby making it particularly important to look at all of the time periods in which the importing community is allowed to make payment of fees.

Mr. **Frenzel**. I thank you for the statement. I think that this committee has looked into that in the past and taken quite a contrary view to Customs and I guess I would express the hope that if the Government would ever pay its bills in 180 days, industry would be well served, and it seems to me that it is a bit of a vain hope to think that we should collect fees within 3 days from somebody else when we cannot pay our own bills within any kind of reasonable period by regular commercial practices.

I would also like to ask you about regional reorganization. This committee noted that you have regions on top of districts which perform, as nearly as we could figure, almost no useful services. We have asked you again and again to reorganize to get rid of the fat, to get rid of the duplication and waste, and you respond by cutting inspectors. Do you have any thoughts about reorganization and doing something with the overhead rather than with the folks in the trenches?

Mr. **Von Raab**. Yes; we have reviewed all the five or six studies that have been made of the Customs Service regional structure and have had a number of long meetings to discuss this. We are preparing to submit to the Subcommittee on Trade a plan to reorganize or consolidate our regions from nine down into some lesser number.

We are consulting now with various members of Congress, some trade associations and other interested parties, so that we will have taken into account all of the particular concerns and needs of these groups. When this process has been completed we will be submitting to you a proposal to reduce the number of regions, probably from nine to six.

Mr. **Frenzel**. Do you have any time frame for or time deadline set for the submission of that plan?

Mr. **Von Raab**. We do not have one. There is an outside time limit that has been placed upon us. I am not sure what that is. I thought we had to submit the plan to the subcommittee this year.

In any case, what is holding up the submission of this report to the committee is proper consultation with Congressmen and Senators whose constituents are involved, and as soon as we have completed that process we will be submitting the report.

Mr. **Frenzel**. That is exactly what was holding up this committee's direction to you to submit the report. It happens to be languishing in last year's authorization at the request of some of the folks that you are now conducting your negotiations with.

One last question. One time, returning from Europe by Air Force aircraft, I landed in North Carolina because of weather problems. A Customs person—two Customs persons had to be put in cars and driven a couple of hours, I guess, to this Air Force base to make sure that we were not up to any nefarious purposes.

Is it not possible for you to deputize military personnel to do your function much as the Agriculture Department deputizes you to take care of some of their legal functions?

Mr. **Von Raab**. There is a military preclearance system. I would ask Mr. Corcoran to describe what process is in place with respect to military aircraft and military vessels.

Mr. **Corcoran**. Yes. We have two systems—one, preclearance by the military. There are designated inspectors for cargo and household goods coming back from such places as the Phillippines and Korea and Europe. The other is, we have in some air bases not in close to our Customs stations, military inspectors designated by Customs to examine aircraft. So we do have that type of system in place.

Mr. **Frenzel**. But you do not have any such system to inspect people.

Mr. **Corcoran**. Yes; for military flights we have some that are designated inspectors, but not for commercial civilian flights.

Mr. **Frenzel**. I cannot blame you for mistrusting Members of Congress, but—[Laughter.]

So, Mr. Chairman——

Mr. **Von Raab**. We have had very good experience with the Members of Congress.

Mr. **Frenzel**. A couple of years ago we put into the law some extra requirements for the Service to do oil gauging. Are those still in the law and are they unreasonable or onerous? Is there a better way to do it? Is there some way we can save money by doing it differently?

Mr. **Archey**. We have in fact put this practice into place and, as the committee well knows, that was a rather intense month or two, while we put in the oil monitoring program. We have backed off of some of it, but it is still in some of the major ports such as New Orleans, Houston, Newark, and maybe one or two—Los Angeles. We still have people who are assigned as basically the oil monitoring inspector or inspector for oil imports.

In view of the fact, too, of a tremendous decline or reduction in imported oils since that effort, perhaps the time has come to reassess it. We are about to do that now. We have particularly—the issue of the 1983 budget level, the amount of fees gained from that is rather nominal.

We are looking at it. We do think, however, that it makes sense, particularly in imports such as New Orleans, where 17 percent of imported oil comes into the United States. It is important that we have someone dedicated to look at the imported oil.

Mr. **Frenzel**. Good. I just wanted to make sure we have not required you to do things by law, to do things that cost the taxpayers unnecessary amounts of money.

I yield my time to the Chair

Chairman **Gibbons**. Are there further questions?

Mr. **Moore**. May I?

Mr. **Gibbons**. Mr. Moore, yes, sir.

Mr. **Moore**. Mr. Chairman, I thank you for the opportunity to be here this morning and to have the opportunity to ask a few questions. I certainly thank you for that courtesy.

I would like to follow up on the questions of the gentleman from Minnesota concerning the plans for these regional offices. Are your plans for the reduction from nine to six a part of this $530,524,000 fiscal year 1983 appropriation request?

Mr. **Von Raab**. We are reflecting some of those reductions in that budget.

Mr. **Moore**. You say "some" reductions. What reductions?

Mr. **Von Raab**. Approximately 250 positions.

Mr. **Moore**. Are those positions coming out of the abolition of three regional offices?

Mr. **Von Raab**. That is correct.

Mr. **Moore**. Are you not figuring on the actual complete closure of the offices? Are you figuring on closing two or one or what?

Mr. **Von Raab**. We are figuring on closing three, but when I say "some" I mean we have to estimate the number of positions as we go in. So—I have a number, 267, in front of me, but I felt 250 was probably a more honest answer.

Mr. MOORE. But for all intents and purposes the amount of money you are requesting reflects an elimination, as far as possible, as far as you can count now, of those three regional offices or three regional offices?

Mr. VON RAAB. It is not in the budget. It is a savings that we have to make.

Mr. MOORE. That is what I mean. In the figure you have asked for you have figured savings on the abolition of three regional offices, is that correct?

Mr. VON RAAB. We hope to make those savings in order to enable us to meet the target of $530 million.

Mr. MOORE. All right. I would assume, by the same token, to phrase the question another way, if you do not close those three regional offices you are going to be dollars short because you have not asked for that appropriation to fund those three agencies.

Mr. VON RAAB. If we do not make those savings that money will have to come out of other parts of the budget.

Mr. MOORE. Let me start by saying that I do not represent New Orleans and that is one of the nine regional centers. Let me also say that I certainly encourage you to find whatever ways you can to economize in running up your service to help us with the deficit problems. I agree with the gentleman from Minnesota. Maybe we ought to do without papershufflers instead of inspectors. He may be quite correct in that.

Have you made a decision which of the three are going to be eliminated?

Mr. VON RAAB. Well, we have not made any decisions, and until we complete our efforts to consult with Senators and Congressmen the plan that we are discussing—that is, what we have developed—would identify New Orleans as a regional headquarters that would be closed.

But I tried to make it very clear that we are not going to do anything until we feel we have done all we can to receive the comments of the various Members of Congress who have constituents that are affected by this.

Mr. MOORE. I can understand perhaps the lack of need of two regional offices on the gulf coast, and you currently have two there—Houston and New Orleans, perhaps Miami, if you consider it not really on the gulf coast, but perhaps servicing part of the gulf coast. I can understand the need for only one.

Why did you choose to eliminate New Orleans instead of one of the other two?

Mr. VON RAAB. The reason that New Orleans has been mentioned is that it is very small right now. It really has only two districts under it. There are 150 administrative types in the region who are responsible for the program analysis, payrolls, and other administrative work of only 300 people in the districts. Whereas in the Miami region, Miami is a very, very large administrative operation now but there is no magic in the selection of New Orleans over Miami.

The magic is that the region running from the Mississippi River, up through or up to the Potomac around the coast, should be a single region. We would just as soon not get caught in a cross-fire as to where the regional headquarters is. The important thing to us is that it be maintained and managed as a single region.

Mr. **Moore**. When regional offices were created in 1966 there was not one created in Miami or Houston but there was one created in New Orleans, is that correct?

Mr. **Von Raab**. I do not know that.

Mr. **Moore**. That is my understanding of the history.

Mr. **Von Raab**. It is quite possible. I love New Orleans. We had our national meeting down there just 3 weeks ago and I dedicated a wharf and I gave a speech to the trade community there.

Mr. **Moore**. We appreciate your speeches and love. We would rather have your regional office. [Laughter.]

Let me go on.

Mr. **Von Raab**. I think the important thing to consider in this regional effort is, the important part of the Customs Service, is the district and one thing we will make absolutely sure is that if we do withdraw the administrative overhead from a particular area, we will leave behind an equal, if not greater, Customs presence at the district. That means import specialists, that means inspectors, that means all of the men and women in the Customs Service that perform the Customs mission.

Mr. **Moore**. Mr. Commissioner, what you are saying probably speaks for the abolition of all regional offices and that may not be a bad idea.

Mr. **Von Raab**. Well——

Mr. **Frenzel**. Would the gentleman yield? I support that 100 percent. This committee would——

Chairman **Gibbons**. We can solve this problem. We can just close them all down.

Mr. **Moore**. Mr. Chairman, I think that would be great.

Chairman **Gibbons**. They were created in 1966, did you say?

Mr. **Moore**. They were created in 1966, Mr. Chairman, and only after, I understand, intense political pressure did they create the subsequent ones—Houston, Miami, and Los Angeles, and in fact Miami and Houston were taken out of New Orleans. You say it is small. That is why it is small. It was divided in thirds from what it had been to satisfy the political whims, I suppose, of Congressmen and Senators and other people who felt like there ought to be three.

I would only point out that historically when you created these things it was on the gulf. Now there are three. I submit you ought to cut the new boys on the block and not the one that has been there, but I would also point out, just for your consideration and the record, that Louisiana developed and has, to this date, the only offshore port, really deepwater port facility offshore in the country, and that was done with the help and study of that regional office in New Orleans.

Second, we basically today, out of that office, collect more—we are sixth in the Nation in collections. Houston and Miami are well below that in collections. We have 35 percent of the total waterborne commerce in the United States going through the Mississippi River in that region. You cannot say that for Miami or Houston.

You have two of the top ship lines, flag carriers of the United States, headquartered there. You also have a 17-State region, 44 percent of all new projected port facility construction to be done in that region.

So I simply point these out, that you may have to reassess what you are planning to cut. But if you plan to cut them all out, that is another question.

Mr. Von Raab. I am aware that New Orleans is the world's second largest port for waterborne commerce and actually the largest in the United States, but I would like to go back to my previous comment. That is that the important piece of Customs that serves that is the district and not the region. The region—and I have to agree with the gentlemen here—is a questionable piece of Customs management.

But in order to look at it we are going to try to bring the number of regions down. I do not personally see that it is possible to abolish regions and to have 40-odd district directors reporting to headquarters. It is hard enough to manage nine of them. It will be easier to manage six of them.

But I would emphasize that the important aspect of Customs is the district. That is where the commercial operation is carried out and we will guarantee you that New Orleans district will remain one of the strongest districts in the United States.

Mr. Moore. Mr. Commissioner, I am sure that is true. I appreciate that. There has always been a Customs house in New Orleans since the State came into the Union. But let me point out that one of the things that you tell us is the function of the regional office is research on new trade development and new port facilities and whatever. You have the newest thing in ports developed off Louisiana's coast with this deepwater oil facility.

Second, we are not talking about the possibility—and the former President, as a matter of fact, proposed this—of dredging the Mississippi River to be the world's exit point for coal in terms of shipping coal from the United States to other parts of the world.

So those are the two newest wrinkles in port or port facilities that would come out of the New Orleans region, not out of Houston and not out of Miami or anywhere else, for that matter. So it would appear to me that there is room to rethink the possibility of cutting that, especially when the only reason why it is small is because politicians divided or had you divide it in thirds. It was probably the biggest before that division occurred.

Mr. Von Raab. I would look forward to an opportunity to sit down and talk to you about what the New Orleans region does. It does not do any research and development and it does no planning. But I would be happy——

Mr. Moore. The New Orleans region performs research efforts, ongoing liaison, developing, and implementing new trade and other programs. That is typical bureaucratese.

Mr. Von Raab. That is typical of what they may think they are doing.

Mr. Moore. According to the manual——

Mr. Von Raab. They are not authorized to do that. I am not saying that in their free time they cannot do a lot of that—maybe they even do it on the job—but these people are supposed to be making sure that people are paid, that they are there on time, you know, that the cars work or things like that. they are not really out there dealing with the business community in those terms.

Mr. **MOORE**. Thank you, Mr. Commissioner. Thank you, Mr. Chairman.

Mr. **FRENZEL**. Will the gentleman yield? As far as I know, all they do is cut payroll there and shuffle papers. They are an extra layer between the business and the Customs Service and the decisionmaking end of the Customs Service in Washington. They are a part of a philosophy that we had in the late sixties of taking government to people and we made regional offices of HEW and HUD and Customs and everybody we could find so it was easier for the people to get to the decisionmakers.

But the Washington decisionmakers never put any decisionmakers in the field in any of these regional offices. So it became an extra layer of insulation through which the public had to cut to ever get to the people who were making the decisions.

I think the gentleman, when he suggested that we cut out the regional offices, made the best suggestion of the day because you can certainly cut the payroll for the Customs Service in Washington, I think, with considerable economic advantage to the Service and to the taxpayer and no inconvenience to your employees.

Other than that, I see very little function that the regional offices provide at all. I thank the gentleman for yielding.

Mr. **MOORE**. Thank you, Mr. Chairman, for the courtesy of allowing me to question the witness.

Chairman **GIBBONS**. Glad to have you here. I always appreciate your participation.

Mr. Commissioner, we have submitted a number of questions to you in writing. We would like to have a written response in time to take them into consideration when we mark up your legislation and on those regional offices why don't you just put them all on vacation at the same time and see if it has any effect on the system. Let them all take their vacations around the United States all at one time and——

Mr. **VON RAAB**. You probably would need some language in the bill in order to do that.

Chairman **GIBBONS**. You can control their vacations, can you not, as Commissioner?

Mr. **VON RAAB**. We have trouble with controlling their overtime, nevertheless their vacations.

Chairman **GIBBONS**. Give them the 1st to the 31st and see what happens. I do not think we would miss any of them. [Laughter.]

You could write all the checks up here, could you not, all the payroll checks? It would take about another 10 minutes on the computer.

Thank you, sir.

Mr. **VON RAAB**. Thank you very much.

Chairman **GIBBONS**. The U.S. International Trade Commission, Chairman Bill Alberger, accompanied by Commissioner Mike Calhoun and Lorin Goodrich. Yes, sir, go ahead. We welcome all of you here. Glad to see you.

STATEMENT OF BILL ALBERGER, CHAIRMAN, U.S. INTERNATIONAL TRADE COMMISSION, ACCOMPANIED BY MICHAEL CALHOUN, VICE CHAIRMAN; PAULA STERN, COMMISSIONER; ALFRED E. ECKES, JR., COMMISSIONER; LORIN GOODRICH, DIRECTOR, OFFICE OF ADMINISTRATION; AND RICHARD ARNOLD, DIRECTOR, OFFICE OF FINANCE AND BUDGET

Mr. ALBERGER. Thank you, Mr. Chairman and members of the subcommittee. I am pleased to meet with you to discuss the Commission's first year 1983 budget request. I am accompanied today by three of my colleagues: Our Vice Chairman, Mike Calhoun, to my right; and Commissioners Paula Stern and Al Eckes, farther to the right; and also by Lorin Goodrich, our Director of Administration; and Richard Arnold, our Director of Finance and Budget, to my left.

I do not intend to read my statement. I would like to ask that the entire statement be entered into the record, and I will give a few comments.

Mr. GIBBONS. Yes, sir. Without objection, it will be entered at this point.

Mr. ALBERGER. We are in an unusual position this year. We put our budget request together in much the same way we did for fiscal year 1982 and assumed last summer when we were putting the 1983 budget together, since our request for 1982 had been approved at our requested level by this committee, the full House, and the Senate Finance Committee, that we would receive something near that amount. Unfortunately, we have been forced to operate on a continuing appropriation at essentially the fiscal year 1981 level of funding.

We prepared a budget that concentrated on improved utilization of resources and determined not to request growth. However, we have had to curtail hiring, travel, and training in order to operate this year at last year's level, even in the face of the 92 steel cases being completed today, on day No. 45 of our preliminary antidumping and countervailing duty procedures.

The steel cases involve products approximating 70 percent of overall domestic steel production and an even larger percentage of steel imports from the European Community. The Commission voted last week to continue 38 of these investigations involving 89 percent of the volume of imports under consideration and terminated 54 cases involving only 11 percent of the volume. We are completing those 92 cases today within the 45-day time limit imposed by the Trade Agreements Act of 1979—but not without a herculean effort by our staff. Typical of the problem of discovering we had to operate in fiscal year 1982 on a continuing resolution at 1981 levels was the situation with our steel experts. We had to temporarily freeze employment shortly after losing two steel experts to the Department of Commerce and one to retirement, in order to hold down expenditures. We shifted resources and tapped those individuals with a capability to blend with our remaining steel experts to form a solid investigative team for these investigations. The staff who produced the steel reports really deserve special recognition for their efforts. It is only through such dedication that we are able to successfully operate and make all our deadlines.

Sometimes the Government employee seems to be the scapegoat for all the economic problems in the country. This is unfortunate, for I believe that public service remains the most noble calling, and I wish there were ways to more adequately reward our fine staff.

I talked about an expanded caseload when I was here last year, and expanded it was. But in fiscal year 1982 it has reached the point where we now expect to double the load from fiscal year 1981, and we firmly believe fiscal year 1983 will equal fiscal year 1982.

There seems to be a slight lag from the start of a recession before the flood of new cases arise. We are now in the flood. With the level of statutory investigations up sharply, we are also experiencing a rapid increase in requested section 332 investigations, with several more apparently soon to arrive from the President.

In addition to the conversion of the Tariff Schedules of the United States to the harmonized system, a massive 2-year project, we have section 332 investigations on softwood lumber, potatoes, and printed circuit boards, and I understand we will soon have requests on performance requirements for operating in foreign countries, GSP for strawhats, and several sectoral studies related to United States-Mexico consultations.

Our responsibilities are not contracting like other agencies that are receiving budget cuts. We continue to receive more requests for assistance, in large part a recognition of our ability to perform, to do the needed research and investigation and to produce a factual and unbiased work product.

I welcome that and have openly sought such recognition in order that we avoid excessive duplication of talents and functions in the international trade operations of our Government. We should attempt to conserve precious resources and that certainly includes tax dollars. However, if we are to continue to perform with the level of expertise this committee expects us to have, we simply must be fully funded at our budget level. You recognized our plight last year and approved our request. We will survive this year on the continuing resolution, providing our pay supplemental makes it through, but the services will probably decline in fiscal year 1983 if we have to make it again on the fiscal year 1981 level.

Let me close with a personal note. I have been a member of this Commission for 4½ years and am now the senior member in terms of service. This is my last appearance before you as Chairman presenting the budget of this Commission.

I have seen five budgets developed and presented and believe each has been leaner than the last. Yet, I firmly believe our work product has steadily improved. Our responsibilities expanded during the MTN and with the passage of the Trade Agreements Act of 1979.

Our authorized staff level in this budget is only 12 more than in fiscal year 1976 and is the same as the approved level for fiscal years 1980, 1981, and 1982.

We have done more with less each year, but I caution you that such apparent contradictions cannot continue much longer. We are getting stretched too thin. We cannot make it at fiscal year 1981 levels through fiscal year 1983 without a very apparent decline in services and quality.

I believe our work in making well considered determinations in major trade cases solely on the merits has been a valuable service to the Congress and the Nation. The existence of this agency is essential to our continuing promotion of transparency and rule of law decisionmaking in trade disputes.

This budget is lean, and we need every penny of it if we are to maintain the level of quality and service you demand and have every right to expect. I thank you for your assistance.

[The prepared statement follows:]

STATEMENT OF BILL ALBERGER, CHAIRMAN, U.S. INTERNATIONAL TRADE COMMISSION

Mr. Chairman and members of the subcommittee, I am pleased to meet with you to discuss the Commission's fiscal year 1983 budget request. I am accompanied today by our Vice Chairman, Michael Calhoun; Lorin Goodrich, our Director of Administration; and Richard Arnold, our Director of Finance and Budget. Other staff members are also present.

In developing the budget request for fiscal year 1983 the Commission examined its needs with special care. Despite the substantial growth in demands on the Commission we have again made a deliberate effort to concentrate on improvements in utilization of resources and not request any growth. The Commission's fiscal year 1983 budget request of $19,737,000 represents an increase of $934,000 over the fiscal year 1982 revised request of $18,803,000, including the supplemental for pay increases. This is a 5 percent increase, of which 96 percent results from built-in increases in employee compensation, inflation and General Services Administration space rental increases. The balance of the increases requested do not represent growth in either program or operating levels but are attempts to institute administrative improvements to maintain and/or improve Commission operations within existing resources. These include the conversion of the current manual TSUSA publication system to an automated system, the implementation of an in-house accounting system and acquiring additional word processing equipment. These improvements will permit the Commission to meet increasing demands without staff increases or commensurate cost increases in other areas. Automation of the publication of the TSUSA will enable the Commission to better serve the international trade community through a reduction in the size of the publication with an accompanying cost reduction, faster publication of Congressional or Presidential changes to the tariff schedules, and electronic access to the TSUS. In addition, automation should reduce the expenditure of several thousand hours of proofreading each year. Our own computer (which was approved by our appropriation committees for purchase from fiscal year 1981 funds and due to be installed in June) will greatly enhance many Commission functions and provide better control of sensitive data, in addition to expanding capabilities in data-gathering, processing, and information sharing. Implementation of our own financial management information system will provide management better control over agency resources and should lead to future cost savings. These improvements will be made without additional cost to the Commission, once the systems are initially installed.

The Commission is currently operating under the Continuing Resolution at the fiscal year 1981 funding level of $17,200,000. To meet our workload demands we have had to take various economy measures to assure that level is not exceeded. We have, of course, limited our staff to a level below that authorized, but we also severely cut back on nonpayroll costs so that we could temporarily maintain a sufficient level of staffing.

A major continuing activity is our work on the Harmonized System, both in the continuing negotiations in Brussels and in converting the TSUSA into the nomenclature structure of the Harmonized System. We are under a Presidentially imposed June 1983 deadline to complete all conversion activities. This includes publishing the 97 chapters of the Harmonized System, holding public hearings on them, and preparing a report to the President on the probable economic effect of the conversion. We have published 24 of the 97 chapters and the first public hearing is scheduled for March 29, 1982. Additional chapters are scheduled to be published in late 1982 and early 1983 with the Commission holding public hearings after the chapters are released.

The Commission is already involved in preparation for the General Agreement on Tariffs and Trade (GATT) Ministerial meeting. Probable topics include the GATT work program for the 1980s and preparation for negotiations in the areas of trade in services, investment, safeguards, counterfeiting, performance requirements, agriculture, government procurement, extension of the aircraft agreement, and adoption of the Harmonized System. The Commission must be prepared to provide full support to the U.S. Trade Representative in these activities.

The demands for Commission services are increasing, and we must be able to continue to provide timely and professional assistance when called upon. The Commission is currently in the midst of the largest investigative caseload in its history. Page 7 of our budget justification summarizes the workload by investigation and shows the significant rise in workload. During fiscal year 1981 the Commission completed 98 investigations and worked on 48 more for a total caseload of 146. During this fiscal year we expect the total workload to nearly double to a level of 274 and for that level to remain during fiscal year 1983. As of tomorrow, in fiscal year 1982, we have completed 129 cases. In the antidumping and countervailing duty area, in addition to the normal workload and the remaining requirement to complete the 30 transition cases on which we have been waiting for data from the Commerce Department, the Commission received 92 cases on imported steel in January of this year. These cases, filed by seven U.S. steel companies, involve approximately 70 percent of domestic steel production, and an even greater percentage of steel imports from the European Community. As you know, the Commission voted last Thursday, continuing 38 investigations involving 89 percent of the volume of steel imports under investigation and terminating 54 cases, involving only eleven percent of the volume of imports.

We have also provided for increased emphasis on unfair import practice investigations, as filings have rapidly increased over the past 6 months. This appears to be due to the fact that ITC procedures are more expeditious than the courts, plus often result in a more effective remedy. We expect this increased caseload will continue not only in patent cases, but also in trademarks and copyrights.

The Commission has recently completed Section 332 investigations or special studies for the Congress and the President concerning jewelry, import trends in TSUS items 806.30 and 807.00, petrochemical industries of North America, trade patterns of North and Central American countries, and Generalized System of Preferences for the People's Republic of China. We are currently conducting several additional investigations including three requested by the Congress: conditions relating to the importation of Canadian softwood lumber; international trade in printed circuit boards, and monthly reports on the U.S. auto industry. We anticipate several additional Presidential requests this fiscal year on such items as automobiles and automobile parts, potatoes, petrochemicals, integrated computer circuits, and performance requirements for U.S. firms establishing operations in other countries. In addition, the Commission on its own motion is currently working on studies which include: Recent Trends in U.S. Countertrade, Emerging Textile Exporting Nations, the Relation of Exports in U.S. Service Industries to Merchandise Exports, and the Effects on U.S. Firms of Expanding Foreign Petrochemical Industries. These latter investigations were initiated following discussions with authorizing Committee staff and USTR staff, where interest in the subjects involved were indicated.

The Commission is required by the Trade Act of 1974 to provide Congress with an annual report on the operations of the trade agreements program and a quarterly report on U.S. trade with nonmarket economy countries. To support these reports and other expanded responsibilities the Commission has developed an active trade monitoring system. This system, in addition to identifying probable trade issues by automatically detecting unusual trade movement, has the flexibility to meet new trade monitoring requirements as they develop. We are currently monitoring U.S. trade in motor vehicle parts and products under the Civil Aircraft Code, and are providing quarterly reports on significant shifts in U.S. trade. During fiscal year 1981 we provided a special report on the U.S. trade balance with Japan for the United States Trade Representative.

The Commission must have the flexibility to shift resources between programs in response to fluctuations in workload demands, rather than increasing or decreasing staff as projects are started or completed. Those 92 steel cases were filed in January, all at one time—we actually had 2 vacancies on our steel staff at the time, but shifted resources to handle the incredible workload. The staff who produced the reports in those investigations really deserve special recognition for their efforts. It is only through such dedication that we are able to successfully operate and make all our deadlines. Sometimes the government employee seems to be the scapegoat for all the economic problems in the country—I believe it remains the greatest public service, and wish there were ways to more adequately reward our fine staff.

In the fiscal year 1982 authorization bill, which has passed the full House and the Senate Finance Committee, USTR sought and obtained additional language allowing reimbursement for travel and acceptance of gifts. The language was added for USTR by this Committee, and in the Senate Finance Committee, coverage was expanded to include the ITC as well. We believe such a provision makes sense and could save government monies. We would, of course, administer it so as to avoid even the appearance of conflicts of interest. We recommend that we be included in such a provision in the fiscal year 1983 Authorization.

Finally, I want to bring you up to date on the condition of the Commission's main building which has been of continuing interest to the Committee. During the past year major repairs have been underway to stop the roof from leaking, but the problem still exists and we are attempting to work with the General Services Administration (GSA) to complete the job; and funds are apparently available for it. Work has begun on a major overhaul of the inner courtyard which we use for carpool parking and which the Postal Service uses for its trucks. Additionally, it is expected that during this calendar year we will have increased electrical power coming into the building which will be an improvement, but there will still exist a power distribution problem. This latter problem, as well as the need for other renovation work, is still present and GSA appears to have no immediate plans for such work which would make the building suitable for efficient office operations. It is our understanding that an overall renovation prospectus will have to be developed and ultimately sent to the Congress. We are pursuing this matter with GSA and will not hesitate to ask the Committee for appropriate assistance. Again I thank the Committee for its help in the past.

Let me close with a personal note. I have been a member of the Commission for four and a half years, and am now the senior member in terms of service. I have seen five budgets developed and presented, and believe each has been leaner than the last. Yet, I firmly believe our work product has steadily improved. Our responsibilities expanded during the MTN and with the passage of the Trade Agreements Act of 1979. Our authorized staff level in this budget is only 12 more than in fiscal year 1976 and is the same as the approved level for fiscal years 1980, 1981, and 1982. We have done more with less each year, but I caution you that such apparent contradictions can't continue much longer. We are getting stretched too thin. We cannot make it at fiscal year 1981 levels through fiscal year 1983 without a very apparent decline in services and quality. This budget is lean, and we need every penny of it if we are to maintain the level of quality and service you demand and have every right to expect.

I thank you for your assistance.

Chairman GIBBONS. Mr. Chairman, we appreciate the fine work that you have done, not only as a Commissioner but specifically as Chairman of the International Trade Commission. And it is with a bit of nostalgia and regret that I see you will no longer be Chairman. I want to commend you, though, for the fine work that you have done.

Mr. ALBERGER. Thank you.

Chairman GIBBONS. Now you are operating under a continuing resolution. You have 416 people. You have been doing a good job. Could you get along on 416 people?

Mr. ALBERGER. We might be able to. I think what we sacrifice there is some level of expertise at the commodity analyst level. That is where we are a bit low right now. And what you end up doing if more commodity analysts could not be added is you spread the responsibilities for all of the various commodities that we have to be expert on among your people.

I think it would be helpful if we could broaden that a little bit so that the expertise that is expected of those individual commodity analysts is not so all encompassing as it is right now. I think it would be helpful if we could add a few more experts in some areas where now we are having to spread some other people to cover those subject matters.

I think it really would be preferable if we could get up to the 438 level that we have been authorized for the last 3 years. I think you would see better results as a result of that.

Chairman **Gibbons**. Would all those 22 additional people be in the commodities?

Mr. **Alberger**. Not all of them, no. There would be, of course, some support staff. There would be some additions in economics. But I think the place where we are substantially down below authorized levels right now is in the commodity analyst area.

Chairman **Gibbons**. Questions from the committee? Mr. Frenzel.

Mr. **Frenzel**. Thank you, Mr. Chairman.

Thank you for your testimony, Bill. You mentioned that you have a load of 332 cases. Could you tell us how many you have?

Mr. **Alberger**. How many we have right now? I believe we are currently working on 12. We are expecting—it depends on the form of the request—but we have had indications through USTR of five others that are expected to come very soon.

Mr. **Frenzel**. Who makes those requests of you?

Mr. **Alberger**. The President, the Congress. This committee has made some of the requests. The Senate Finance Committee has made some of the requests.

Mr. **Frenzel**. Yes. My recollection is—that this committee has made one request by resolution and has a current request pending which was made, I guess, informally.

Mr. **Alberger**. I know there is the continuing request for monthly automobile statistics, which we are providing under section 332. That is a request from this committee. This committee concurred, I think, in terms of timing about the same time as the Senate Finance Committee request, for an investigation on softwood lumber. Printed circuit boards is also a request from this committee. So that would be three that are ongoing right now that are requested from this committee.

Mr. **Frenzel**. And do most of the rest come from STR?

Mr. **Alberger**. Yes. Right now, in terms of ongoing investigations, the potatoes request is from USTR on behalf of the President. We have been told that there will be on the order of five others that are coming very soon from the President.

Mr. **Frenzel**. There is a bit of a problem here. From its creation, I think the ITC has been used occasionally as a bit of buffer to give the appearance of some sort of action, more of a show than for profit.

And I am concerned that some of the overload may be in work that is not essentially productive or does not get factored into somebody's decisionmaking process. And I assume that you do not have that feeling with the cases that I mentioned.

Mr. **Alberger**. When we receive these requests from the President or from the committees of the Congress, we are not in a position to second-guess what motives might be behind the request. And it could be that in some cases it operates as a stall against other action. But we have to assume that what we are producing is indeed a work product that is demanded by those that request it, and perform accordingly.

Mr. **Frenzel**. Thank you very much.

Last year this committee inserted in the authorization for STR the ability for certain STR officials to travel, not at public expense, to meetings and seminars and convocations of various kinds. Could that be a useful authority for the ITC?

Mr. ALBERGER. I think it would be, Congressman. I am not sure the extent to which that would allow us to reduce some of our travel funds. But I think there are occasions where we discover that we are appearing at a conference, for instance, put on by some legal group, the American Bar Association or something like that, where other Government officials who have that kind of authority are having their hotels and meals paid for and we are paying it out of ITC funds. It does not make a great deal of sense.

Mr. FRENZEL. Exactly. If convention registrants can pay the expenses of others. They can pay the expenses of you folks, I think.

Thank you very much, Mr. Chairman. I yield my time.

Chairman GIBBONS. Mr. Pease.

Mr. PEASE. Mr. Chairman, thank you very much.

I too would like to commend our departing chairman for an excellent job. I think you have epitomized what good public service is all about.

Mr. ALBERGER. Thank you.

Mr. PEASE. I would like to ask you a question, maybe a policy question a little beyond what you could reasonably be asked to respond to. But let me try it anyhow.

I am particularly concerned about dumping cases. In my district I have steel, I have autos, a lot of fasteners, lots of things that people feel are threatened by dumping from overseas.

The Commerce Department, as I understand it, makes the determination of whether there is or is not dumping, and if that is the case, if the answer is yes, that the ITC determines whether there is injury. And only if there is a determination of injury is there any relief for the domestic producer.

Mr. ALBERGER. That is correct.

Mr. PEASE. That is correct. It has been suggested to me that this process, despite the good work of the ITC, takes a good bit of time, and often by the time that process is finished, the domestic producer is already gravely injured because of the dumping, and that it would be advantageous to have that process cut short.

I am just wondering how important it is to have injury be a part of that equation, whether it might not be good public policy for us that we do not say that anybody ought to be dumping any products in our economy. And if dumping is approved by the Commerce Department relief can be given immediately to the domestic producer without a determination of injury. How would you react to that proposal?

Mr. ALBERGER. Well, of course, we had that procedure somewhat for subsidy purposes prior to 1979. In the multilateral trade negotiations, one of the concessions that the United States made was to agree to have an injury test for subsidy cases under U.S. law in order to get certain of the procedures, transparency, abroad among other countries that would agree to sign the Subsidies Code.

In the case of antidumping law, the injury test has been a part of our law since 1921. To make a change now would cause, of course, great concern in the international community where other nations likewise have an injury test under the International Antidumping Code.

In terms of your concern about the timing of cases, we are always concerned about that, too. It does take some time to process these cases. It is a complex process to find out whether less-than-fair-value selling is occurring, and it is not that easy to determine in terms of causation whether those particular imports in question are really causing injury to the domestic industry. Thus, we need some time.

The time limits were shortened considerably as a result of the Trade Agreements Act of 1979, and we are now operating under much tighter procedures both at the Commission and at the Department of Commerce in handling dumping and subsidy cases. If they are going to get shortened any more, we are going to have to come up here asking for more money. And I do not know whether that is a proper thing to put into the equation or not.

I am not sure we could do it that much faster even with more people and more money. The process is really complex. In order to really make well-informed determinations on each of these kinds of cases, I think we do need the time limits that we now have, at least that amount of time.

Mr. **Pease**. Could you tell me what the average length of time is for determination of injury or noninjury?

Mr. **Alberger**. On our injury determinations, we make a preliminary judgment in the first 45 days after the case is filed. That, of course, is what just happened in the steel cases. Then after the Commerce Department makes a preliminary judgment of whether there is less-than-fair-value selling occurring, we begin a 120-day process to find out whether there is material injury caused by those imports.

Mr. **Pease**. So it is about roughly 6 months.

Mr. **Alberger**. It is 6 to 9 months, basically.

Mr. **Pease**. Yes. You mentioned other nations also have injury tests in their antidumping legislation. Are there other nations which do not have an injury test which allow relief on a prima facie case or determination of dumping?

Mr. **Alberger**. I am not aware of any particular nation that does. There are, of course, nations that do not have anywhere near as elaborate procedures as we do. Probably the closest in terms of a similar procedure would be Canada. Their overall process is much the same as ours at their Antidumping Tribunal and their Tariff Board.

Also, I discovered last year, Sweden has much the same process. They just never use it because they never have dumping cases. But the process that is set up is much the same as our own procedure.

Most other nations which follow the process and actually impose dumping duties have pretty much one administrative panel—not panel—one administrative head of an operation that makes the judgment. And it is part of their overall political structure. It is not an independent tribunal such as this one or such as the Antidumping Tribunal in Canada. So the way various nations conduct these processes varies considerably.

Mr. PEASE. These others that you are talking about have a one-stop shop for determining both the dumping and the injury; is that correct?

Mr. ALBERGER. Yes. Europe would be the prime example of that.

Mr. PEASE. Thank you very much.

Chairman GIBBONS. Further questions?

[No response.]

Chairman GIBBONS. I think you are all doing a good job. Keep up the good work.

Mr. ALBERGER. Thank you.

Chairman GIBBONS. Our next witness is from the U.S. Trade Representative's Office, Dennis Whitfield, Assistant USTR for Administration. Yes, sir, you may proceed as you wish.

STATEMENT OF DENNIS E. WHITFIELD, ASSISTANT U.S. TRADE REPRESENTATIVE FOR ADMINISTRATION, ACCOMPANIED BY DICK HEIMLICH, SENIOR ASSISTANT USTR FOR BILATERAL AFFAIRS; JOHN GIACOMINI, DIRECTOR, OFFICE OF MANAGEMENT; MIKE HATHAWAY, DEPUTY GENERAL COUNSEL; AND BILL MARONI, DIRECTOR OF CONGRESSIONAL RELATIONS

Mr. WHITFIELD. Mr. Chairman, thank you, sir. I am pleased to be here today in Ambassador Brock's absence. Regretably, he had a previous commitment, but did ask me this morning to extend his best regards to you, sir.

We are here today and appreciate the opportunity to present our resource needs for fiscal year 1983. With me today is our Senior Assistant USTR for Bilateral Affairs, Dick Heimlich; our Director of Management, John Giacomini; Mike Hathaway, our Deputy General Counsel; and Bill Maroni, our Director of Congressional Relations.

We are continuing to work toward passage of a 5-year authorization bill for USTR, with the assistance of your committee. We hope to complete this process by the end of fiscal year 1983. Your staff and the staffs of several of the House committees continue to be very helpful, and we certainly do appreciate that.

As you know, last fall USTR completed an internal reorganization, a purpose of which was twofold actually: first of all, to make the best use of our personnel resources, and funds available; and second of all, to help better carry out the mandate of the President and the Congress.

Since fiscal year 1980 I think it is important to note our total permanent personnel allocation has been held at 113. In fiscal year 1983 it provides us with 131 work-years, of which 113 are full-time permanent. The balance are used for other than full-time permanent, such as part-time secretarial, part-time professional help, and consultants.

There are two specifics I make in the summation of the statement. I would like to point out I think it is important to us, first of all, in the authorization, the housekeeping language which does allow us to accept funds from groups and invite USTR personnel to come speak or appear at conferences, et cetera. I think it is very important to us to help us make up that 14 or 15 or perhaps 16 percent increase in the cost of travel.

And the other specific item that we would like to be concerned with is the need for 2 automobiles for our office in Geneva. Up to this point we have used the automobile facilities of the State mission there. My understanding is that several of them were totaled last year. I think Mike Smith would appreciate some way to get around Geneva over there.

Chairman GIBBONS. Other than jogging?

Mr. WHITFIELD. He says it makes his face grow long. [Laughter]

But if I could, in summarizing I would like our statement entered into the record. I would appreciate it.

Chairman GIBBONS. Yes, sir, we will put your entire statement in the record.

[The prepared statement follows:]

STATEMENT OF DENNIS E. WHITFIELD, ASSISTANT U.S. TRADE REPRESENTATIVE FOR ADMINISTRATION

Mr. Chairman, I am pleased to appear before you to present our resource needs for fiscal year 1983 and to respond to your questions. Ambassador Brock regrets that he cannot be here since he had prior commitments. With me is our Senior Assistant U.S. Trade Representative for Bilateral Affairs, Dick Heimlich, the Director of our Office of Management, John Giacomini, Mike Hathaway our Deputy General Counsel, and our Director of Congressional Affairs Bill Maroni.

Mr. Chairman, we are continuing to work toward passage of a five year authorization bill for the office of the United States Trade Representative. With the assistance of the House Ways and Means Committee, we hope to complete the new authorization process before the end of the current fiscal year. I would like to say that your staff and the staff of several other House Committees continue to be very helpful to us in this effort. We are aiming for early consideration and timely full House action.

Last fall USTR completed an internal reorganization. We have included the revised organization chart in our resource request package on page one. The purpose of the reorganization is to make the best use of personnel and funds so that we can fulfill our mandates from the President and Congress. Also, in keeping with the administration's desire to restrain costs, we are using every means possible to increase productivity and managerial effectiveness with the diminished resources with which we have to work.

For example, since fiscal year 1980, we have held total permanent personnel to 113 full-time positions. This fiscal year we began operating under a workyear allocation of 131 workyears. Within this total allocation, we cannot exceed 113 workyears for full-time, permanent personnel. The remaining 18 workyears are used to employ other-than-permanent personnel, such as consultants, part-time secretaries, and other temporary professional personnel whose expertise is essential for completing our tasks.

To further supplement our permanent staff and to hold down personnel costs, we have been very successful in establishing a volunteer university intern program. More than 14 students assist us on a part-time basis, with research tasks, and represent five local and three out-of-town universities.

To be sure, holding to the level of 131 workyears for fiscal year 1983 will spread our staff thin, especially with new thrusts coming on-line such as the Caribbean Basin initiative, preparation for the Gatt Ministeral Conference, and the joint U.S.-Mexico Commission. However, we are fully committed to meeting this challenge.

For fiscal year 1983 we are proposing a budget of $10.1 million which is $1.1 million above our current allocation. This excludes the supplemental adjustments for fiscal year 1982 pay increases and losses in the exchange rate for our Geneva office. It represents a maintenance budget, that will help to offset rising costs. Any reduction will seriously affect our capability to do the job assigned to us. A significant amount of the increase will be absorbed by salary costs and by other rapidly rising costs; for instance, air fares are expected to rise about 15 percent.

Consistent with one of our major goals of getting more for less, we have succeeded in getting the most out of available resources. We have continued to exercise tight controls over expenditures especially for overtime, travel, and procurement. Our senior staff has a direct role in this control process. We have also instituted improved systems for status-of-funds reports and for projections of spending patterns.

Furthermore, we are gradually beginning to utilize fully our internal computer capability for streamlining resource reports.

Mr. Chairman, we believe that our request is a very reasonable one and is in accordance with the need for national budget constraints even with rising workloads. with the requested resources, we will be able to pursue the administration's and this Congress's commitments to economic growth, and the strengthening of the Nation's economy.

I would be pleased to respond to your questions on our resource request and on your organization and its responsibilities.

Thank you.

Chairman GIBBONS. Are there questions from the committee?

Mr. FRENZEL. I have been following those cars with great interest over the last couple of years. As I understand it, when we rent a car, we have to pay an exorbitant amount.

Mr. WHITFIELD. About $800 or $900 a month.

Mr. FRENZEL. What was the problem? Was it that the authorization was not passed last year, or did you have a problem in the appropriation?

Mr. WHITFIELD. Authorization.

Mr. FRENZEL. You need the authorization.

Mr. WHITFIELD. Yes, sir.

Mr. FRENZEL. OK. Well, we certainly do not want to see Mike on foot. I am glad that works out.

I have some difficulty understanding your sheet on personnel here. I wish you had not submitted it.

Mr. WHITFIELD. The breakout sheet?

Mr. FRENZEL. Yes; where you have part-time temporaries, full-time temporaries, part-time consultants, and full-time consultants. What does all that mean?

Mr. WHITFIELD. Well, of the 113 full-time permanent, we have 108 in Washington and the 5 in Geneva. We have some consultants that work on a part-time basis. We have two of them, I believe, John, that help us deal with OPM regulations on a part-time basis, because we have sort of a split area, we have an in-house management group, but we also work with the OA personnel operation. And with OPM. In addition, we need at other times to have help with interpretation of procedures and what we need to follow.

We have temporaries such as computer programmers or students that come in, and part-time permanent people that work on specific programs and projects that we have. What we do dealing with the 131 work-years is to provide 113 for full-time permanent, and the balance is used for volunteers, student interns, stay-in-schools, and consultants and contractors. The work years are programed so that there is no wasted time as well as no overlap.

Mr. FRENZEL. That is good. Tell me the difference between a detail person and an interagency agreement person?

Mr. GIACOMINI. The detail is from another agency. Interagency agreements are agreements we have with the USDA Graduate School to provide us certain consultant services.

Mr. WHITFIELD. An example of an interagency agreement, like we have with the USDA, is a study they are in the process of finishing now on development and retention of professional personnel.

And we will have the first report back in mid-March, which is a followup on a suggestion of Senator Long, made last year, for us to investigate the process by which the U.S. Government prepares its negotiators in relation or in contrast to our trading partners, how they prepare their negotiators, and go back and take a look at it and see how we can better prepare ours and so forth.

So we have an agreement with the USDA Graduate School to provide that research and survey for us, and we should have that back by mid-March.

Mr. FRENZEL. You mean you have nine guys working at that?

Mr. GIACOMINI. They also have helped us implement the Civil Service Reform Act. I have had to use about four people to help me get that done. That involves merit pay and performance appraisal plans.

Mr. FRENZEL. You had to pay for those people?

Mr. GIACOMINI. Yes, we do. But it is cheaper going that route.

Mr. FRENZEL. OK. How do you get a nonreimbursable detail as against a reimbursable detail?

Mr. WHITFIELD. Well, we are fortunate at times, to give you one example, to have someone like Drew Lewis who has hired a person and to detail him to us on a nonreimbursable basis. We have several of those from different agencies, and they are sent over usually in areas that the other agency, host agency, host department, also have a fairly strong interest in, so that they may come for a year or 18 months on a nonreimbursable basis and then go back to their host agency or host department to work. And they have picked up some knowledge and understanding of the inner workings of the USTR that is helpful to that host department, too.

Mr. FRENZEL. Do you detail any employees to other agencies?

Mr. WHITFIELD. Yes, we have one. Right?

Mr. GIACOMINI. We have two at Commerce right now.

Mr. WHITFIELD. That is right. Two at Commerce.

Mr. FRENZEL. Do you give them away free, or do you charge for them?

Mr. GIACOMINI. It is an exchange. They send us personnel, we send them personnel. It is part of an informal program we have worked out.

Mr. FRENZEL. Thank you very much.

Chairman GIBBONS. Mr. Pease.

Mr. PEASE. I have no questions.

Chairman GIBBONS. Your budget request for 1982 shows an increase of only $40,000 for full-time permanent pay increases. Your estimate for 1983 is an increase of $513,000. What accounts for this increase?

Mr. GIACOMINI. $513,000 covers projected increases for full-time permanent salaries and within-grade increases. That is what the $513,000 is about.

Chairman GIBBONS. How did you hold it to only $40,000 in 1982 and $513,000 now?

Mr. GIACOMINI. That has to cover us for the increases—the pay cap for our senior people and the recent pay increase. Pay increases were included in totals last year. This year they are not since the supplemental will go to Congress at a later date.

Chairman GIBBONS. Thank you. Thank you very much.

Mr. FRENZEL. Mr. Chairman, last year we did put that authority for you to travel not on public expense but by groups on who would like to pay your way from time to time. Would you like to have that authority in this year's authorization?

Mr. GIACOMINI. Oh, yes.

Mr. WHITFIELD. Yes, sir. The total number of trips are more so for domestic travel than for foreign travel, of course, foreign travel being much more in cost. Domestic travel last year was about $94,000. And I would say about 80 percent of that, maybe 85 percent, we could have picked up. We have people offering all the time to pay hotel fare and airfare to come out. That would save us 14 or 15 percent inflationary cost in travel.

Mr. FRENZEL. Great. Thank you.

Chairman GIBBONS. Thank you very much.

Our next witness is from the U.S. Department of Labor, Mr. Malcolm R. Lovell, the Under Secretary.

STATEMENT OF MALCOLM R. LOVELL, JR., UNDER SECRETARY OF LABOR, ACCOMPANIED BY MARVIN FOOKS, DIRECTOR, OFFICE OF TRADE ADJUSTMENT ASSISTANCE, AND ROBERT SCHAERFL, DIRECTOR, OFFICE OF PROGRAM MANAGEMENT, EMPLOYMENT AND TRAINING ADMINISTRATION

Mr. LOVELL. Thank you very much, Mr. Chairman. I appreciate the opportunity to appear before you and the other members of the committee to discuss the administration's proposal to amend the trade adjustment assistance program for workers as contained in the President's 1983 budget proposal. I am accompanied today by Marvin Fooks and Bob Schaerfl.

The Trade Act of 1974 provided adjustment assistance in the form of reemployment services, training and job search and relocation allowances and for trade readjustment allowances—cash benefits—to workers whose unemployment is linked to increased imports of foreign-made products.

Our analysis of the program indicated that most workers eligible for trade adjustment assistance utilized only the TRA cash benefits and made little use of the training or other adjustment benefits available to them. Almost 1.3 million workers received TAA from April 1975 through March of 1981; only 38,000, or less than 3 percent, entered training; and 1.2 percent completed training.

One-third of 1 percent received relocation allowance. In fact, prior to 1976 over 70 percent of the workers who received the TAA benefits went back to work for their original employer. And even in recent years over 40 percent have returned to their original employer.

Thus, the TAA program has become primarily an income maintenance rather than an adjustment assistance program. With the help of the subcommittee, we made major changes in the program last year which were contained in the Omnibus Budget Reconciliation Act of 1981. These amendments represented a fundamental shift under the Trade Act. Major emphasis was given to employment services, training, and job search and relocation services rather than income maintenance.

During the weeks immediately preceding the October 1981 amendments, expenditures for TRA were running at a $20 million weekly rate. That rate was steadly reduced and in January 1982 was at a weekly level of $1.2 million. At the end of fiscal year 1981 there were some 175,000 workers participating in the trade adjustment assistance program. That population has also dropped sharply and now approximately 7,000 to 8,000 workers are in the program.

So to summarize, the problem with the old TAA program was that the cash benefits provided incentives to prolong the duration of unemployment. In contrast, last year's proposed changes provided incentives and assistance for unemployed workers to actively search for a new job. Thus, the TAA program will work to reduce rather than increase the unemployment in some industries.

Now, we propose additional steps in this direction. Trade adjustment assistance will be increased and TRA decreased. Funds for adjustment assistance will be raised to $25 million for the remainder of the 1982 fiscal year. And these funds will provide unemployed workers in 46 States with training, job search, and relocation services. This level of funding is three times higher than funding levels in the last 2 years. For 1983 these funds are included in the special targeted program estimate of $200 million, which is proposed for separate transmittal after passage of our proposed legislation.

Payment of TRA under the trade program would be eliminated for individuals not actively engaged in a training program on July 1, 1982. Those already in approved training would be permitted to finish their training under the provisions of the current law and would receive TRA weekly benefits and training costs until training courses are completed.

This proposal would save $26 million for the remainder of fiscal year 1982, $108 million in fiscal year 1983, and $81 million in fiscal year 1984.

Forecasts indicate that several hundred thousand jobs will no longer exist in this country after the auto industry has completely modernized and revamped its operations. These are permanent job losses which affect not only autos but steel, rubber, and other related industries.

The sooner the unemployed workers involved could be equipped for and directed to new jobs, the better for them, their families and local communities and our economy in general.

This administration is committed to the principle that workers who have permanently lost their jobs through no fault of their own should be treated similarly regardless of the reason for job loss. We recognize that these proposed amendments to the TAA program are not the complete answer to the retraining requirements.

Now, while we have examined these questions of broadening retraining and relocation assistance beyond the TAA population of eligibles, we are mindful of several important issues that must be addressed.

The first concerns the issue of identifying permanently displaced workers. For other than plant closings and some reduction-in-force that are announced as permanent, there exist no reliable indicators that tell us in advance who is temporarily and who is permanently displaced. The fact that 70 percent of the TAA recipients prior to 1976 were recalled to former employers bears this out.

Second, we have little or no experience to date in retraining experienced workers, but we have initiated programs to learn. As you know, the Labor Department has been funding a project in the Downriver area of Detroit, Mich., seeking to determine how experienced displaced workers can best be retrained for new employment. In this project we expect to learn a considerable amount about the ways in which the experienced workers can be effectively and efficiently assisted to achieve new employment.

I can assure the subcommittee that we are sincere in exploring several methods of assisting the private sector efficiently and equitably meeting the worker adjustment assistance requirements of our changing economy.

Mr. Chairman, this completes my statement. My colleagues and I would be glad to respond to your questions.

[The following was subsequently received:]

U.S. Department of Labor,
Secretary of Labor,
Washington, D.C., March 10, 1982.

Hon. Sam M. Gibbons,
Chairman, Subcommittee on Trade, Committee on Ways and Means, House of Representatives, Washington, D.C.

Dear Mr. Chairman: Thank you for your letter of February 22, containing questions on the present Trade Adjustment Assistance (TAA) Program and proposed changes to that program. We have addressed all of the questions you raised. In those instances where full information or data are not readily available (part 2 of question No. 4 and question No. 5), we will provide the information as soon as it becomes available.

I trust that the information provided will aid the Subcommittee in its markup of recommendations to the full Committee on Ways and Means.

If I may be of further assistance in this matter, please let me know.

Sincerely,

Raymond J. Donovan.

Enclosures.

Trade Adjustment Assistance

PRESENT PROGRAM

Question 1. Among the changes made in the program last year was to entitle workers to payment of the costs of their training once training is approved. This change was in response to a history of very low funding for training under the program and the fact that a large proportion of the workers entering training at that time (and since) were paying for their own training.

However, an ETA directive to the State Employment Security Agencies dated November 13, 1981, on implementation of the new program states that (1) no self-financed training will be approved after September 30, 1981, and (2) State agencies shall not approve training unless sufficient funds allocated to pay the training costs are already available.

Neither of these two conditions for approval of training appear in the law. What is the rationale for the addition of each of these two administrative conditions and on what authority are they based?

Answer. Section 236(a)(1) of the 1981 amendments does provide the legal bases for not approving self-financed training and requiring funds to be available before training can be approved. The amendment states "The Secretary may approve. . . ." and that once approved, "Training shall be paid for. . . ."

Thus, we cannot approve self-financed training, and we would not want to approve training for which no funds were available.

Question 1, part 2. The November 13, 1981 ETA directive to the State employment security agencies also adds a third condition for approval of training setting a time limit of 26 weeks after exhaustion of basic TRA or 78 weeks after layoff for those not entitled to TRA for a worker to be approved for training. The only deadline under the law with respect to training is that a worker must have applied within

210 days after certification or layoff, whichever is later, to receive TRA while in training. What is the rationale and authority for this administrative time limit on approval of training? Doesn't it give a shorter time frame for a worker to apply for training, particularly allowing time between application and approval, than under the law to apply for TRA while in training?

Answer. Although the above time limits for entry into training are consistent with and are parallel to weeks of TRA eligibility for workers in approved training, we are revising the time limits in order not to injure workers who may be affected by delayed certifications. We are rescinding the above time limits and are instituting revisions which provide that an individual for whom training has been approved under Section 236 of the 1981 amendments must commence training within 60 days after the date of such approval, except that if the individual for good cause, does not commence training within the 60-day period, the period may be extended up to a maximum of 120 days after the date of such approval. For purposes of administering this requirement, good cause means such reasons as would justify an individual's conduct when measured by conduct expected of a reasonable individual in like circumstances, including but not limited to reasons beyond the individual's control. State employment security agencies have been told to disregard the previous time limit guidelines in the referenced directive.

Question 2. How many workers have applied for training since the new program went into effect on October 1, 1981? How many have been denied training because of unavailability of sufficient funds? How many have not been approved because they wished to self-finance their training?

Answer. Our TAA Reporting System does not provide data concerning the number of applicants for training. However, our First Quarter fiscal year 1982 Preliminary Report indicates that 144 workers entered training. These 144 workers undoubtedly represent entries into training in the Fourth Quarter fiscal year 1981, which were not counted. It is safe to say that no workers were approved for TAA training during the First Quarter fiscal year 1982 because Federal funds had not been appropriated until mid-December, 1981. In our answer to Question 1 we have addressed the legislative and legal factors which prohibit us from authorizing the approval of training when Federal funds are not available.

Question 3. Since the new program went into effect, only 115 cases have been instituted and 62 certified covering an estimated 5,233 workers through January 9, 1982, compared to 888 cases instituted and 183 certified covering an estimated 25,659 workers during the comparable period of 1980. What are the main reasons for this sharp decline under the new program despite higher unemployment and deepening recession? In 1981, as a whole, only 10 percent of all cases instituted were certified, compared to certification rates of 29 percent in 1980 and 40–50 percent during 1975–1979 under the same statutory criteria. How do you account for the low certification ratio throughout 1981.

Answer. The decline in the rate of petitioning may be due to an impression that the program is no longer available because of the substantial modifications made by last year's Budget Reconciliation Act.

Also, major sectors of the economy are covered by existing certifications or certifications in process. It is conceivable, for example, that once the bulk of extant certifications in the auto industry terminate, new petitions will be filed.

The low certification rate in 1981 is representative of a long-term trend which has been greatly influenced by limitations in the law which prevent the coverage of workers from firms that supply components that are not imported but which are impacted by the importation of products that incorporate these components.

In addition, denials in the steel and apparel industry reflected primarly the impact of domestic economic conditions. Imports for the relevant time frames applicable to specific cases either did not increase or were relatively unchanged compared to earlier periods were certifications had been issued.

Question 4. Only 17,334 workers have completed training of the total 48,131 workers who have entered training from fiscal year 1975 through fiscal year 1981. Of the 20,362 entering training in fiscal year 1981, only 5,384 completed it. What are the reasons for the low completion rate? To what extent has it been due to the need to self-finance in the absence of sufficient funds?

Answer. (1) We have not conducted a formal study on TAA training relative to completion rates and worker success in finding employment following the completion of training. The historical completion data does seem to be consistent with the hypothesis that workers are more likely to complete training courses when employment opportunities are scarce, i.e. almost twice as many workers completed training in fiscal year 1981 as fiscal years 1980 (47 percent: 5,527 vs. 2,910). During fiscal years 1979 and 1980, an undetermined number of workers interrupted their training to return to work when employment opportunities opened up at their former places of employment.

(2) In order to place the completion issue into perspective, we cannot presume that only 5,500 of the 20,000 workers who entered training in 1981 would complete the training. The entry and completion of training data reflect ongoing activity which cannot necessarily be linked to a specific fiscal year. More than half of the 20,000 workers who entered training in fiscal year 1981 did so during the last 6 months of the fiscal year. Therefore, it is not reasonable to expect all of them to have necessarily completed their training courses within fiscal year 1981. Preliminary data for the first quarter indicate that over 3,500 workers were still in training at the end of December 1981. Completion rates have always been fairly low throughout the history of the program when recall of reemployment prospects were high. On an entry into training vs. completion basis by fiscal year, the completion rates ranged from a high of 87.1 percent in fiscal year 1979 to 32.7 percent in fiscal year 1981. The true average completion rate is 39.1 percent if the 3,500 workers who are currently enrolled in training are excluded from the calculation. This completion rate compares to an average CETA completion rate of more than 50 percent in all training categories in fiscal year 1981.

(3) There has been a recent upsurge in self-financed training, but completion rates have been low before and during this surge. It, therefore, does not seem that self-financing and the completion rate are closely related.

Question 4, part 2. What are the predominant industry backgrounds and occupational skill, education, and age levels of workers entering training, of workers completing training, of workers self-financing their training under the program?

Answer. Our current TAA reporting system no longer captures demographic data on workers in training. However, we do have some data covering fiscal year 1979-80 as reported by 17 States which might give a limited historical perspective. Compiling and analyzing this historical data would require substantial staff effort during a period of limited staff resources. However, if you feel such information will prove helpful, we will make every effort to provide you with a summation.

Question 5. Outlays for TRA payments in fiscal year 1982 through January 9 totalled $44 million compared to $609 million during the similar period fiscal year 1981 under the previous program, with only 8,800 claimants in the week of January 9, 1982, compared to 175,000 just before the present program went into effect. What specific changes in the program account for most of the decline in cost and in the number of recipients; for example, how much of the cost reduction and how many recipients have been affected (1) by the requirement that workers exhaust UI before becoming eligible for TRA payments, or (2) by the reduction in the basic TRA collection period to 1 year after exhaustion of regular UI?

Answer. Section 2514 of the Omnibus Budget Reconciliation Act of 1981 provides that the amendments to TAA Program affect all TRA recipients for weeks beginning after September 30, 1981.

Specifically, two amendments to the TAA Program affecting TRA recipients have accounted for most of the decline in the number of TRA recipients and TRA expenditures after September 30, 1981. These amendments are:

(1) Section 233(a)(2) of the Trade Act of 1974, as amended, provides that all individuals will have a fixed period of TRA eligibility under a certification. This TRA eligibility period will be the 52-week period immediately following the individual's exhaustion of regular unemployment insurance (UI) in the individual's first UI benefit period following his earliest TRA qualifying separation under the applicable certification. Consequently, individuals establishing TRA entitlement in calendar years 1978 through early 1980 would be beyond their 52-week TRA eligibility period on, or shortly after, October 1, 1981.

(2) Section 231(a)(3)(B) Trade Act of 1974, as amended, requires individuals to exhaust all rights to any UI to which they are entitled before these individuals can receive TRA. Therefore, TRA recipients, who had UI entitlement remaining as of October 1, 1981, would cease to receive TRA on and after that date until such time as they would exhaust their UI entitlement and are still within their 52-week TRA eligibility period.

Our current TAA Program reporting system, consistent with reducing the reporting burden on the State, does not provide data concerning the decline in the number of recipients and amount of expenditures due to these two amendments. Therefore, such data is not available.

Question 6. The Administration supplied budget estimates during consideration of the program changes last year of $2.7 billion in fiscal year 1981 and $1.5 billion in fiscal year 1982 for TRA benefits if the previous program remained in effect, and $238 million in fiscal year 1982 as the cost of TRA under the program as changed.

Actual program cost in fiscal year 1981 was $1.5 billion and the current estimate for fiscal year 1982 under the present program is $144 million. How do you account for these substantial differences in budget estimates?

Answer. When estimates for fiscal year 1981 and fiscal year 1982 were made the best sources and information available at the time were used. Estimates of outlays for this particular program are subject to large variation as many factors such as shifts in layoff rates, certification levels, and the general well being of the economy, can have a great impact on the level of final outlays.

Specifically: Fiscal year 1981 the initial estimate of $2.7 billion was based on several assumptions including:

(1) That the high levels of layoffs in the automobile industry (at that time) would continue—they dropped soon after the estimates were made by about one-third.

(2) That UI benefit levels would remain at the same level or grow slowly—Michigan raised their UI level by some $80-$85/week thereby reducing the TRA supplement.

(3) That a large amount of potential entitlements remained to be paid—the payout rate was apparently extended over a longer period of time.

Fiscal year 1982, the initial estimate of $1.5 billion was based on a level of $2.7 billion in fiscal year 1981 and a gradual recovery of the automobile industry coupled with a lack of any major new TRA certifications.

The estimate of fiscal year 1982 based on the new legislation was initially $238 million. This estimate was developed using a total unemployment rate (TUR) of 7.4 percent in fiscal year 1982 and the assumed approval of $112 million for Training, Relocation and Evaluation.

Note.—The estimate of benefits if no training money were available was for some $160 million out of the $238 million. The reestimate for fiscal year 1982 was based on:

(1) A higher TUR of 8.9 percent thereby increasing the number of States paying extended benefits (EB) which in turn reduces the TRA supplement.

(2) A lower level of training funds ($25 million), thus fewer claimants getting an extra 26 weeks of benefits.

(3) A greater impact on "old" claimants as a result of the 52 week limitation on receiving TRA after UI exhaustion.

PROPOSED PROGRAM

Questions 1 and 2. 1. When will the Administration draft legislation to the Congress proposing changes in the program effective as of July 1, 1982? Will this same bill or separate bill propose establishment of the special target program effective as of October 1, 1982?

2. Will legislation propose any changes in the program besides elimination of TRA benefits other than for workers in training as of July 1, 1982 and provision of training, job search, and relocation allowances from a special target program? For example, will the certification process and criteria remain the same to determine eligibility of workers for training and job search and relocation allowances after July 1, 1982? Has any consideration been given to possible alternative methods for certification in order to reduce the ratio of salary and administrative costs in relation to the size of the program if the Administration's proposed changes are adopted and to speed up benefit delivery?

Answer. Legislation has been drafted, and is in clearance, that would make only one change in the TAA program: eliminate TRA benefits other than for workers in training as of July 1, 1982. No other legislative changes to the Trade program are comtemplated at this time. We anticipate that this legislation will be ready for introduction in the Congress shortly.

Question 3. How many workers do you estimate will be enrolled in approved training program as of July 1, 1982, and, therefore, still qualify for TRA? How many workers do you estimate will apply and be approved for training in the fourth quarter of fiscal year 1982 and in fiscal year 1983 if TRA benefits while in training are no longer available? How many workers do you estimate would apply for and be approved for training in the fourth quarter of 1982 and in fiscal year 1983 if TRA benefits while in training continued?

Answer. We have not made a formal estimate of 1982 take-up rates for TAA training in fiscal year 1982 under the proposed program. However, if a significant portion of the 3,500 workers currently enrolled in training seek approval under the 1981 amendments and if other potentially eligible workers become aware of the proposed amendment to restrict TRA eligibility to those workers enrolled in training as of July 1, 1982, it is likely that we will reach maximum 1982 enrollment level of 6,250 trainees by July 1982.

If the funds to provide tuition and training-related expenses are committed "early on," there could be no further approved in fiscal year 1982 irrespective of whether or not additional weeks of TRA benefits are payable.

The thrust of the last two questions centers upon the payment of TRA as a monetary incentive for workers to enter or remain in training. We have made no estimates of take-up rates for training based upon the availability and non-availability of TRA benefits and are uncertain of worker reaction to non-availability of TRA benefits. However, we do believe that those workers who are truly interested in training will find the means to participate with or without TRA allowances.

Question 4. What is the current backlog of petitions filed? How many petitions do you estimate will be pending as of July 1, 1982? How many certifications and how many certified workers do you anticipate as of July 1, 1982 who could be eligible for TRA under the current program? How many workers do you estimate would be drawing and still eligible for TRA benefits as of July 1? Will the Administration's proposed legislation include transition provisions for any of these groups of workers, or will their petitions for or entitlements to benefits automatically terminate as of July 1 under the proposal?

Answer. As of February 12, 1982 there were 998 petitions in process. By July 1, 1982 we anticipate there will be about 600 in our backlog. It is assumed that the certification rate over the next several months will approximate the rate of the past several. Under the circumstances, we would estimate that around 10,000 certified workers will be drawing TRA on June 30, 1982. The proposed modification to the TRA program would not prematurely terminate the certification of any existing petition. We do not propose to modify the certification period as currently defined in the statute. However, individual worker eligibility for TRA would terminate for those TRA recipients who are not enrolled in a training program as of July 1, 1982.

Question 5. What specific groups of people will be able to obtain benefits under the special target program besides certified trade-impacted workers? Of the total $200 million in budget authority and $180 million in outlays for the program in fiscal year 1983, how much will be allocated for trade-impacted workers and how much to each of the other groups? If the allocations are not yet made, when and by whom will they be? What criteria will be used in determining how the money is allocated among the various competing groups? Will the allocations be fixed by ETA or will the individual States have discretion to set or to change allocations among the various groups; alternatively, will the funds be allocated on a State basis in block grants to be allocated among the target groups and administered by each State?

Answer. In the past the special target group programs were comprised of migrant and other seasonally employed farmworkers, Indians and other native Americans, older persons under the Senior Community Service Employment Program, Job Training Opportunities for Women, handicapped persons, veterans and members of other groups that are experiencing particular disadvantages in the labor market as well as trade impacted workers.

We can provide no specific facts at this time about group composition or proportional funding for each group, including trade because no final decisions have yet been made. The funding plan is in an embryonic state and is still being developed. We will be happy to provide you with details when the plan becomes final.

Question 6. What is the rationale for proposing elimination of cash benefits for workers approved for training but not actually enrolled as of July 1, 1982, and for workers who have applied for training but not yet been approved as of that date, while workers actually enrolled in training can still receive TRA payments? What is the average time between application for training and approval, and between approval and enrollment?

It is realistic to believe that workers will be able to seek training for better employment opportunities if they are not able to get cash benefits while in training?

Answer. The decision to phase out the TRA benefit payment by permitting workers already enrolled in training to receive these benefits through the end of their individual eligibility periods is based upon several considerations. First, the Government has made an investment in these workers which we don't want to see wasted by the possible abrupt termination of the workers from training. In that connection, the workers themselves included the receipt of TRA as part of their personal economic planning when entering training and it would not be in the workers' best interests or the interests of the program to abruptly terminate their eligibility for TRA.

Workers who enter training after July 1, 1982 will be made aware of the program's limitations prior to enrollment.

A criterion had to be established regarding whether to continue to pay TRA benefits for workers approved for training as of July 1, 1982 or those already enrolled as of that date. Since we are planning to phase out the TRA allowances portion of the program, it makes sense to pay TRA benefits only to those workers actually enrolled in training. To do otherwise would be equivalent to providing workers approved for training prior to July 1, 1982, with promissory notes not only for tuition and related training expenses, but future TRA benefits as well.

We don't know the average time lapse between applications for training, approval and enrollment at this time. However, we will make inquiries of our State agencies and provide you with an approximation of the time lapses.

Regarding your question on the workers' need for allowances while in training, let me explain that our proposed elimination of the TRA cash benefits is consistent with our belief that the regular UI program with its extended benefits (EB) protection during periods of high unemployment is an adequate wage-loss compensation program for unemployed American workers. The long-range goal of this proposal is to have TAA certifications occur within the statutory 60-day period and to have workers enter approved training while they are still in a period of UI or EB eligibility.

Question 7. Would the program benefits continue to be administered by the State employment security agencies as they have been in the past and include employment services and job search and relocation allowances as well as training? Under the previous and present programs primary reliance has been placed on training programs operated by CETA prime sponsors. If the Administration's proposal to replace the present categorical grants to prime sponsors with a block grant to States for training is adopted, what will be the effect on the availability and type of training for trade-impacted workers?

Answer. The proposed program would continue to include reemployment services, job search and relocation allowances as well as training and would continue to be administered by the State employment security agencies. Additionally, as mandated by Section 225 of the 1981 amendments, State agencies would establish, maintain and strengthen their linkages with State Boards for Vocational Education or equivalent agency and other public or private agencies, institutions, and employers regarding the availability, need and type of training to be conducted.

Chairman GIBBONS. Yes, sir, Mr. Pease, do you have questions?

Mr. PEASE. Mr. Chairman, I think I asked most of my questions yesterday of the Secretary. Obviously, I am not happy with the situation, but I do not think any purpose would be served by my rehashing those again today. I am going to let Mr. Lovell off easily.

Mr. LOVELL. I thank you very much, Mr. Pease. I really appreciate that.

Chairman GIBBONS. Thank you, sir.

Mr. LOVELL. Thank you very much, Mr. Chairman.

Chairman GIBBONS. William Morris, of the Department of Commerce, was not able to be present. Without objection, we will place the statement of the Department of Commerce in the record. And if we have any questions, we will submit them in writing.

[The prepared statement and additional material follow:]

STATEMENT OF WILLIAM H. MORRIS, JR., ASSISTANT SECRETARY FOR TRADE DEVELOPMENT, INTERNATIONAL TRADE ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE

Mr. Chairman and members of the subcommittee, I am pleased to have this opportunity to discuss a number of Commerce Department issues and programs relating to our responsibilities in international trade. With your indulgence, I would like to describe briefly the programs and associated resources proposed for the International Trade Administration (ITA) in 1983, the agency of the Commerce Department most deeply concerned with an involved in non-agricultural trade matters. The 1983 budget request for the International Trade Administration is $137,371,000 and 2,365 positions, a net decrease of $14,329,000 and a net increase of 67 positions from the amount currently available in the 1982 appropriation. Changes specifically requested in this budget include increases of $4,532,000 and 59 positions for the Foreign

Commercial Service and $700,000 for Export Administration and decreases of $30,094,000 and 28 positions in Trade Adjustment Assistance.

Although ITA recently instituted a limited realignment of functions within Trade Development and International Economic Policy, timing for the submission of the formal budget document was such that it was necessary to prepare it using last year's budget structure.

Because the newly aligned structure will not result in resource shifts between programs, my prepared statement will describe ITA's programs within the framework of the 1983 budget document. I will be happy to answer any questions you may have on the realigned ITA structure at the conclusion of this statement.

TRADE DEVELOPMENT

For our Trade Development activity, we are requesting $86,495,000 and 1,578 positions, a net increase of $4,532,000 and 59 positions over the 1983 base. These programs are designed to strengthen the international trade and payments position of the United States. They include Export Development and the U.S. and Foreign Commercial Services.

For the Export Development subactivity, we are requesting $28,157,000 and 416 positions. The programs in this area encourage American firms with untapped export potential to enter foreign markets, in both free and centrally-planned economic markets, through a wide variety of trade promotion and export information services.

The request for the U.S. and Foreign Commercial Services totals $58,338,000 and 1,162 positions, a net increase of $4,532,000 and 59 positions over the 1983 base. The increase requested is to augment Foreign Commercial Service (FCS) resources to a level sufficient to do the quality job of export promotion expected of the Department of Commerce. Specifically, it will allow for an increase in headquarters staff; an expanded effort to assist U.S. industry to take advantage of the trade opportunities presented by the MTN agreements; and upgraded training and career development program; a business facilitation program which would allow the FCS to provide certain types of support to small and medium-sized U.S. businesses; a one-time request for funds to relocate selected commercial facilities; an increase in representation funds; and increased staffing in 10 key countries. The U.S. and Foreign Commerical Services provide assistance at sites convenient to the business community both in the United States and overseas. They included 47 District Offices in the United States and Posts in 66 export markets throughout the world.

During 1982, ITA will reprogram resources within the Trade Development activity by moving 74 positions and appropriate dollars from Export Development to the U.S. Commercial Service (USCS). To effect this transfer, several functions including seminars, business counseling/trade complaints and "E" Awards, will be transferred to the USCS. Export Development will also increase the contracting out of several activities currently performed in-house including the participant procurement and other support functions for overseas promotional events. The USCS, in addition to continuing the activities transferred from Export Development, will expand upon its export assistance efforts through increased outreach activities by District Offices. Particular emphasis will be placed on assisting export capable firms, especially small and medium-sized businesses, to enter the foreign marketplace and helping firms during their initial years of overseas sales activity.

INTERNATIONAL ECONOMIC POLICY

The budget request for the International Economic Policy activity is $11,647,000 and 237 positions, reflecting a net decrease of $30,094,000 and 28 positions from the 1983 base due to the proposed elimination of the Trade Adjustment Assistance program.

This activity is responsible for overall direction and coordination of international economic policy formulation, research, and analysis within the Department of Commerce; implementation of the result of the Multilateral Trade Negotiations (MTN); and participation in the negotiation and implementation of trade agreements.

For the Trade Agreements and Policy Planning subactivity, we are requesting $8,798,000 and 183 positions. These programs develop and implement trade policies and agreements; conduct economic research and analysis in support of policy formulation; and administer the textiles and apparel import and export programs.

For Finance, Investment and Services, we are requesting $2,849,000 and 54 positions. These programs develop the Department's positions on international finance, investment, and service industry issues, and they carry out continuous monitoring and evaluation of foreign investment in the United States.

In Trade Adjustment Assistance, we are proposing the elimination of programs by 1983. This will result in a decrease of $30,094,000 and 28 positions. Loan guarantee authority of $28,250,000 will also be eliminated. Only about 65 firms per year have benefited from TAA loans and loan guarantees of which a significant portion have failed to adjust to import competition. Trade Adjustment Assistance to firms has a high default rate since most of the firms assisted are close to bankruptcy. As of June 30, 1981, 30 percent of the TAA portfolio was delinquent in meeting payments and another 33 percent was in the process of liquidation.

TRADE ADMINISTRATION

For our Trade Administration activity, we are requesting $18,911,000 and 429 positions, a net increase of $700,000 over the 1983 base. This activity is responsible for implementing a number of programs which regulate the flow of trade both into and out of the United States.

For the Export Administration subactivity, we are requesting $10,731,000 and 256 positions, an increase of $700,000 over the 1983 base. This increase will be used to replace the existing computerized export license processing system and extend this system to some ITA District Offices. This program implements export controls for reasons of national security, foreign policy, and short supply; conducts programs to oppose restrictive trade practices or boycotts; and operates to assure the availability of industrial resources for national emergencies and for national defense, energy, and other priority sectors.

For the Import Administration subactivity, we are requesting $8,180,000 and 173 positions for the Department's antidumping and countervailing duty programs to protect U.S. industry from injury due to sales of foreign goods at prices below fair value, and foreign government subsidization of imports into the United States. Import Administration is also responsible for the Foreign Trade Zones, Watch Quota, Florence Agreement, and Foreign Excess Property Programs.

Finally, we are requesting $20,318,000 and 121 positions for the Administration subactivity to provide administrative management services to support the program areas of ITA and fund centrally budgeted items such as space rental payments to GSA, telephone payments, and Working Capital Fund payments to the Department.

Mr. Chairman, this concludes my prepared statement. I will be pleased to answer any questions you or the Committee may have.

SUBCOMMITTEE ON TRADE,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C., February 17, 1982.

Hon. MALCOLM BALDRIGE,
Secretary, Department of Commerce,
Washington, D.C.

DEAR MR. SECRETARY: As your agency has been informed, the Subcommittee on Trade will hold hearings on February 25 and 26 on budget issues concerning the trade functions of the Department of Commerce and other agencies within our jurisdiction in order to provide budget estimates and recommendations to the full Committee on Ways and Means for use in the First Congressional Budget Resolution for Fiscal Year 1983.

The purpose of this letter is to invite you or a representative from your Department to appear before the Subcommittee on Thursday morning, February 25, to make a brief opening statement and to answer Members' questions on the fiscal year 1983 budget request for the International Trade Administration. In particular, the Subcommittee will be interested in the recent reorganization of ITA and its impact on the role of the Department of Commerce in interagency trade policy development and coordination; the operation of the trade adjustment assistance program for firms and the Administration's proposal for its elimination; the administration of the antidumping and countervailing duty laws and the textile program; efforts to implement and monitor the agreements reached in the Multilateral Trade Negotiations, including the Foreign Commercial Service; and industrial sector analysis and trade monitoring activities.

Thank you for your help and cooperation and I look forward to working with you on these matters.

Sincerely,

SAM M. GIBBONS, *Chairman.*

Subcommittee on Trade,
Committee on Ways and Means,
Washington, D.C., February 22, 1982.

Hon. **Malcolm Baldrige,**
Secretary, Department of Commerce,
Washington, D.C.

Dear Mr. Secretary: I am enclosing questions dealing with matters in which the Subcommittee on Trade is particularly interested concerning the President's FY 1983 budget request for the International Trade Administration. I would appreciate your witnesses appearing before the Subcommittee on Thursday, February 25, being in a position to respond to these and other questions and answers in writing as soon as possible thereafter to enable the Subcommittee to prepare for its scheduled markup of recommendations to the full Committee on Ways and Means on March 3.

Thank you for your cooperation.

Sincerely,

Enclosure.

Sam M. Gibbons, *Chairman.*

U.S. Department of Commerce,
International Trade Administration,
Washington, D.C., March 11, 1982.

Memorandum for Mary Jane Wignot, Professional Staff, House Ways and Means, Room 233, Cannon House Office Building.

Subject: Subcommittee on Trade Hearing, February 25, 1982.

Attached are ITA's answers to questions previously submitted by the Committee for the above hearing. If I can be of further assistance, please don't hesitate to call.

Ronald L. Wilson,
Director, Office of Budget.

Attachment.

INTERNATIONAL TRADE ADMINISTRATION

1. Your detailed FY 1983 budget submission to the Congress is based on functional divisions of ITA as they existed prior to the recent reorganization. For example, the budget includes $6.9 million and 136 permanent positions for trade agreements through offices which will no longer exist under the reorganization.

   How do these and other estimates translate or change to conform to the new organization? For example, how many positions and what is the budget estimate in FY 1982 and FY 1983 for a policy planning unit under the Under Secretary and a multilateral trade policy unit apparently planned under the Assistant Secretary for International Economic Policy?

The resource crosswalk below shows the relationship of ITA's budget structure with the new organizational alignment. This crosswalk, based on ITA's FY 1983 budget request, demonstrates that no resource shifts occurred as a result of the realignment. Rather, functions were regrouped in a manner which will permit more effective, responsive work to be performed.

For example, on page 2 of the crosswalk, the Trade Negotiations unit shown under the Trade agreements line item (IV-A1) moves intact to the Multilateral and Investment Policy Coordination group immediately opposite, while the General Commercial Policy unit under Trade agreements (IV-A2) which, until the realignment became effective, operated in a very generalized way with respect to country policy matters, has been distributed across the four regionally oriented units in IEP, Europe (4), East Asia and the Pacific (3), Africa, the Near East and South Asia (3), and the Western Hemisphere (3); with the remaining positions (3) going to the Trade information and analysis unit in Trade Development.

Realignment Change Crosswalk

Current Activities:	1983 Estimate Auth. Pos.	1983 Estimate Amount
Trade development:		
I. Export development:		
A. Research, planning and evaluation (RPE)	32	$2,521
B .Country marketing assistance (CMA)		
1. CAGNE business facilitation	4	143
2. All other CMA	100	3,848
Subtotal, CMA	104	3,991
C. Overseas export promotions	93	7,562
D. Domestic exporting assistance (DEA)		
1. Major Projects	18	748
2. All other DEA	36	2,260
Subtotal, DEA	54	3,008
E. Trading information and services	49	5,018
F. Small business export expansion assistance (SBEEA)	3	1,000
Total, Export Development	335	23,100
II. East-West trade:		
A. East-West trade analysis	20	1,142
B. East-West trade development		
1. Trade Dev. Assist. Div	16	640
2. Eastern Europe. Affairs Div	13	520
3. USSR Affairs Div	5	200
4. PRC Affairs Div	16	903
Subtotal, EWTD	50	2,263
C. East-West trade promotions	11	1,652
Total East-West Trade	81	5,057
III. U.S. and Foreign Commercial Services:		
A. Foreign commer. operations	746	42,735
B. Inter. market sales dev	411	14,558
C. Commerce Business Daily	5	1,045
Total, US&FCS	1,162	58,338

Realigned Activities:	1983 Estimate Auth. Pos.	1983 Estimate Amount
Export development		
IC Overseas export pro	93	$7,562
ID2 All other DEA	36	2,260
IF SBEEA	3	1,000
IIB1 Trade Dev. Assist. Div. (p)	4	160
IIC East-West trade pro	11	1,652
VA1 For. Business Pract. Div	11	580
VB Int'l Service Industries	8	429
	166	13,643
Industry projects		
IB1 CAGNE business facil	4	143
ID1 Major projects	18	748
IIB1 Trade Dev. Assist. Div. (p)	12	480
IVA3 Trade Advisory Center	4	180
IVA4 Commodity Policy (p)	5	224
IVA5 Import Policy Div. (p)	8	360
IVB2 Inter. Sectoral Policy	16	781
IVB3 Planning and Research (p)	5	198
VA2 Inter. Finance	9	475
	81	3,589
Trade adjustment assistance		
VI Trade adjustment assist	---	---
Textiles and Apparel		
IVC Textiles and apparel	47	1,927
Trade information and analysis		
IA Research, plan. & evaluation	32	2,521
IE Trading Info. and Services	49	5,018
IIA East-West Trade Analysis (p)	13	862
IVA2 Gen. Commer. Policy (p)	3	595
IVB3 Planning and Research (p)	40	2,000
VC Foreign Invest. in the U.S.	19	996
	156	11,992
U.S. and Foreign commercial services		
IIIA Foreign commer. oper	746	42,735
IIIB Inter. market sales develop	411	14,558
IIIC Commerce Business Daily	5	1,045
	1,162	58,338

(p) = partial

Realignment Change Crosswalk

Current Activities:	1983 Estimate Auth. Pos.	1983 Estimate Amount
International economic policy:		
IV. Trade agreements and policy planning:		
A. Trade agreements		
1. Trade Negotiations Div.	13	$584
2. General Commer. Policy Div	16	1,179
3. Trade Advisory Center	4	180
4. Commodity Policy	10	449
5. Import Policy Div.	16	719
Subtotal, TA	59	3,111
B. Policy planning and analysis		
1. Int. Economic Relations	16	781
2. Int. Sectoral Policy	16	781
3. Planning and Research	45	2,198
Subtotal, PPA	77	3,760
C. Textiles and apparel	47	1,927
Total, TAPP	183	8,798
V. Finance, investment and services:		
A. Finance and investment policy		
1. For. Business Pract. Div	11	580
2. Int. Finance	9	475
3. Invest. Policy Div	7	369
Subtotal, FIP	27	1,424
B. International service industries	8	429
C. Foreign investment in the U.S.	19	996
Total, FIS	54	2,849
VI. Trade Adjustment Assistance	---	---

Realigned Activities:	1983 Estimate Auth. Pos.	1983 Estimate Amount
Multilateral and Investment Policy Coordination		
IVA1 Trade Negotiations Div.	13	$584
VA3 Investment Policy Division	7	369
	20	953
Europe		
IB2 Europe Div. (except Canada)	27	1,090
IIA East-West Trade Analysis (p)	2	80
IIB2 East. European Affairs Div.	13	520
IIB3 USSR Affairs Div.	5	200
IVA2 Gen. Commer. Policy Div. (p)	4	179
IVB1 Int. Econ. Relations (proposed European Div.)	6	293
	57	2,362
East Asia and the Pacific		
IB2 Asia/Africa Div.(by country)	18	711
IIA East-West Trade Analysis (p)	4	160
IIB4 PRC Affairs Div.	16	903
IVA2 Gen. Commer. Policy Div. (p)	3	135
IVA5 Import Policy Div. (p)	2	90
IVB1 Int. Econ. Relations (Japan)	5	244
	48	2,243
Africa, the Near East and South Asia		
IB2 Asia/Africa Div. (by country and all other CAGNE)	31	1,082
IVA2 Gen. Commer. Policy Div. (p)	3	135
IVA4 Commodity Policy (p)	3	135
	37	1,352
The Western Hemisphere		
IB2 Latin American Div.	24	965
IIA East-West Trade Analysis (p)	1	40
IVA2 Gen. Commer. Policy Div. (p).	3	135
IVA4 Commodity Policy (p)	2	90
IVA5 Import Policy Div. (p)	6	269
IVB1 Int. Econ. Relations (proposed N. American Div. and Canada	5	244
	41	1,743

(p) = partial

Realignment Change Crosswalk

Current Activities:	1983 Estimate Auth. Pos.	1983 Estimate Amount
Trade administration:		
Export administration:		
Licensing	141	$5,982
Compliance	54	2,316
Short supply	9	350
Antiboycott programs	30	979
Industrial mobilization	22	1,104
Total, Export administration	256	10,731
Import administration:		
Antidumping and countervailing duty investigations	46	2,229
Antidumping and countervailing duty compliance	94	4,270
Antidumping and countervailing duty policy	21	1,073
Special import programs	12	608
Total, Import administration	173	8,180
Administration:		
Centralized services	—	15,788
Administrative services	28	775
Budget and fiscal services	20	692
Management and systems	23	775
Personnel	32	1,175
Public affairs	15	975
Congressional relations	3	138
Total, Administration	121	20,318
TOTAL, ITA	2,365	137,371

Realigned Activities:	1983 Estimate Auth. Pos.	1983 Estimate Amount
Trade administration:		
Export administration:		
Licensing	141	$5,982
Compliance	54	2,316
Short supply	9	350
Antiboycott programs	30	979
Industrial mobilization	22	1,104
	256	10,731
Import administration:		
Antidumping and countervailing duty investigations	46	2,229
Antidumping and countervailing duty policy	94	4,270
Antidumping and countervailing duty policy	21	1,073
Special import programs	12	608
	173	8,180
Administration:		
Centralized services	—	15,788
Administrative services	28	775
Budget and fiscal services	20	692
Management and systems	23	775
Personnel	32	1,175
Public affairs	15	975
Congressional relations	3	138
	121	20,318
TOTAL, ITA	2,365	137,371

February, 1982

2. The largest single expenditure for Export Development is overseas export promotion ($7.6 million of a total $28.2 million in FY 1983). Has consideration been given to reducing the Federal expense for trade fairs and missions, etc. by requiring private sector participants who directly benefit from such activities to pay some or all of the cost?

The Department of Commerce has recovered from industry at least part of its overseas export promotion cost since 1961. In recent years, direct expenses for trade fairs and missions other than overseas salaries and benefits have been paid by contributions from industry. Appropriated funds are used for operating expenses of overseas promotional events only in those locations and industries where there is a long-term logic for the Government to prepare the way for future market opportunities. In these instances, it is not possible to recover all operational costs from industry. Appropriated funds are used to support the direct costs of the events.

The $28.2 million total export development figure includes $1.7 million in East-West Trade overseas promotion, as well as $7.6 million for promotions in the rest of the world. In FY 1983, ITA anticipates receiving approximately $6.4 million in total contributions from firms participating in our overseas promotions.

3. To what extent would Department of Commerce activities be duplicative and could the budget be reduced for export development and foreign commercial operations for small and medium-sized firms if the export trading company (ETC) legislation is passed?

Export Trading Company (ETC) activities will expand rather than duplicate Department activities. For this reason the Department's budget for export development and foreign commercial operations should not be reduced. ETC's will take market development risks and be the marketing arm for small and medium-sized firms. The Department will continue to offer services directly to firms seeking to establish independent agent relationships and manage their marketing activities. Illustrative of the need for both types of assistance is the fact that the government-funded Japanese External Trade Organization (JETRO) maintains an active promotion program in an environment where strong conglomerate trading companies flourish.

Commerce functions will not conflict with ETC operations. To the contrary, Commerce will be active in promoting and encouraging the formation of ETC's, and will be the administrator of antitrust certification procedures. Our District Offices recently conducted an informal survey which found strong business interest in ETC legislation and estimated that exports would increase by a minimum of five percent over a three year period after enactment.

In 1980, U.S. manufactured goods and agriculture exports were $185.7 billion. A minimum 5 percent increase in this figure would add $9 billion to the U.S. export total. If exports of services, management fees and so forth, are added to manufactured and agriculture exports, the increase would be $11 billion. By current estimates every $1 billion increase in exports creates 31,000 jobs. Using this figure, the Export Trading Company legislation would create from 280 to 340 thousand jobs nationwide.

4. What is the rationale for shifting 74 positions from Export Development to the U.S. Commercial Service in 1982 and how will this affect export development activities?

The shifting of Export Development resources to the U.S. Commercial Service -- particularly the 59 slots targeted for District Offices in the field -- represents the strong commitment that ITA management has placed on its objective of increasing the number of export capable firms entering and sustaining their activities in the international marketplace.

The increased staffing of field offices will allow ITA to expand its efforts to recruit new exporters from small and medium-sized firms; provide direct information and technical assistance to a larger potential exporter base; and, coordinate its export development activities more closely with those of state, local agencies, and the private sector thereby increasing their capabilities to assist firms to export.

The majority of these positions will be distributed to District Offices in major U.S. commercial areas where the largest number of American firms with export potential are located, i.e., approximately 1,600 manufacturing firms per trade specialist (San Francisco, New York City, Los Angeles, Chicago, Seattle, Miami, Boston, Dallas, Atlanta, St. Louis, Cincinnati, Denver, Detroit, Greensboro, and Newark).

To minimize the impact of this resource transfer on Export Development, which will continue to provide a wide range of trade promotion services, private sector contracting will be utilized to a greater extent in activities currently performed in-house (e.g., recruitment of participants for overseas promotional events). Outdated programs will be eliminated. The USCS will establish a model counseling center in Washington, D.C. which will serve as a training center for ITA staff and provide extensive counseling services to businesses located in or visiting Washington.

5. The FCS is requesting $1.1 million and 19 positions to assist U.S. industry in taking advantage of MTN trade opportunities. In which countries will these new positions be located and how were these particular posts chosen? An increase of 16 positions and $970,000 is requested in FY 1983 for the FCS for facilitating services, commercial intelligence reporting, export promotion, etc. in posts viewed to be under strength in relation to U.S. export potential. Why are none of these positions apparently slated for the PRC?

The FCS proposes to distribute 19 new positions for MTN support as follows:

	Foreign Commercial Service Officers	Foreign Service Nationals	American Secretary
Japan...............	2	2	1
Belgium.............	2	1	1
United Kingdom......	1	1	0
Canada..............	2	1	1
France..............	0	1	0
Germany.............	0	1	0
Sweden..............	1	0	0
Netherlands.........	1	0	0

These posts were chosen because of the heavy MTN support workload which we expect once these key signatory countries are in full compliance with their MTN obligations. We expect the greatest workload to be generated from the Government Procurement Code opportunities.

The FCS proposes to distribute 16 new positions to understaffed key export markets as follows:

	Foreign Commercial Service Officers	Foreign Service Nationals	American Secretary
Canada..............	2	1	0
Venezuela...........	1	1	0
Phillipines.........	1	1	0
Alegeria............	1	0	0
Mexico..............	1	1	0
Israel..............	1	0	0
Argentina...........	1	0	0
Saudi Arabia........	1	0	0
Netherlands.........	1	0	0
Brazil..............	2	0	0

None of these positions have been targeted for the PRC because we already plan to have 5 officers assigned to the PRC, together with appropriate secretarial support. Because of office space and housing limitations in China, we would be unable to accommodate a larger complement at this time. As market opportunities grow in the PRC, we will review our staffing levels there.

6. The budget submission states that ITA will contract out several activities in FY 1982 currently performed in-house. What specific activities are involved and what is the reason for the shift? Won't contractual services be more expensive?

The contracting out referred to in this question is directly related to the proposed redirection of resources from Export Development to the U.S. Commercial Service. In order to minimize the impact of providing increased staffing in individual District Office, private sector contracts will be utilized to provide certain services currently being performed in-house. Shipping work will be incorporated into freight forwarding contracts and billed directly to the exhibitor. Exhibit design work currently performed in-house will be contracted out either domestically or overseas. In addition, increased contracting will be used in the production of market research studies. However, we do not envision increasing contractual obligations for these types of activity from appropriated funds.

In addition, Trade Development has reviewed its programs to identify those activities which can and should be turned over to the States or the private sector. We have found that there is ample ability in the private sector to assume additional export-related activities previously performed by the Department.

We are turning over to the private sector, at no cost to the Government, the complete operation of some trade shows overseas and offering U.S. Government endorsement to trade associations or professional exhibition management companies for events sponsored and run by those organizations. In addition, we are enlisting the cooperation of trade associations and other private sector organizations at no cost to the Government to assist in the recruitment of participants for overseas events which ITA will continue to operate, to conduct domestic export seminars, and to disseminate export information.

7. Have you had to take any RIF-ing actions or place any personnel on furlough? To what extent has this been avoided by using funds from the firm trade adjustment assistance program? How much money from TAA has been used for this purpose and how has the reduction in funding affected the TAA program?

No ITA employees have been placed on furlough during the current or previous fiscal year. Four employees have been separated by RIF since October 1, 1981. Two were separated by RIF during the last quarter of FY 1981. All of these RIF actions were the result of program decisions essentially unrelated to budget issues, e.g., minor shifts in program emphasis and/or minor reorganizations which resulted in the abolition of positions.

ITA has not used any TAA funds to avoid RIF's and furloughs. However, were ITA required to obligate for the TAA program an amount significantly higher than $27,578,000, the amount now planned for FY 1982, such actions would probably become necessary.

8. Your budget submission shows an increase of 340 interagency meetings (445 to 785) on trade policy issues from FY 1982 to FY 1983 as opposed to a small decline from FY 1981 to Fy 1982. How do you account for this tremendous increase?

The increase in the number of interagency meetings on trade policy issues in FY 1983 reflects the Administration's activist international trade policy and commitment to an open and fair free market trade system, as well as the current environment of the international trading system. The Trade Policy Committee (TPC), chaired by the U.S. Trade Representative, and the Cabinet Council on Commerce and Trade (CCCT), chaired by the Secretary of Commerce, are the primary interagency mechanisms for trade policy development coordination and implementation. As a result of various Presidential initiatives and the work of the TPC and the CCCT, an increase of interagency meetings has been required to coordinate work on:

-- Effective enforcement of U.S. trade laws and international trade agreements.
-- Reduction or elimination of domestic export disincentives.
-- Implementation of the MTN Agreements.
-- The U.S.-Mexican Joint Commission on Commerce and Trade (JCCT).
-- The Caribbean Basin Initiative (CBI).
-- The GATT Ministerial scheduled for November, 1982
-- The intense focus on trade relations with Japan through Sub-cabinet meetings and the Trade Facilitation Committee (TFC).

-- Addressing the range of trade distorting non-tariff barriers with our trading partners, including trade-related investment incentives and performance requirements.
-- Future bilateral and multilateral negotiations that will expand access to overseas markets and set effective rules and procedures for dealing with trade issues in services.
-- The heightened attention to sectoral policy issues such as high technology, steel, autos, and textiles and apparel.
-- Various Bilateral Consultative Commissions, e.g., U.S.-China Joint Economic Committee, U.S.-Greece Joint Working Group on Economic Cooperation, U.S.-Korea Commerce Ministers, and U.S.-Yugoslav Economic/Commercial Working Group.
-- Negotiations under Section 124 of the Trade Act of 1974 negotiations.
-- The heightened awareness for the need for open communication with our major trading partners resulting in the Ottawa Summit, the Cancun Summit and its follow-up, Quadrilateral meetings with our major trading partners, the upcoming Versailles Summit, and ongoing bilateral discussions with Japan, the European Economic Community, and Canada.
-- The issue of reciprocity in our trade relations.

9. We have received a number of complaints lately from the private sector of long delays in selecting representatives for the private sector advisory committees, particularly for the ISACs. What are the criteria and procedures for the selection process, what accounts for the delays, and what is the current status of the sector and functional committees?

The charters for and member appointments to the current ISACs and IFACs expire in late March 1982 under the terms of the Federal Advisory Committee Act. The appointment of members for the post-March program is a complex and time-consuming process, involving over 500 members and a large number of new nominees. A number of criteria are used in selecting members, particularly, in the case of current members wishing to continue in the program. These include the individual's record of past participation in the work of the respective ISAC or IFAC. As in the past, members will be selected for their industry expertise and interest in trade policy matters. Every effort is being made also to achieve a representative diversity of views, geographic and demographic balance, and the broadest feasible product sector representation. The examination of all current members' participation, factoring in of new nominees, acquisition of security clearances for candidates, and review by appropriate policy-level officials at Commerce and USTR all require considerable time. We plan to complete the selection process in time to ensure continuity in the program.

10. Your request includes an increase of only $40,000 and no changes in personnel for the textile and apparel functions. Are current levels sufficient in light of the large number of bilateral textile negotiations this year as well as monitoring and other activities?

Virtually all of the budget for the ITA textile and apparel program is used for personnel expenses. The $40,000 increase is primarily for salary related adjustments to base and will be sufficient to carry the program through fiscal year 1983 at current levels of activity.

Although there are a large number of bilateral textile negotiations this year, the additional expenses involved are split between the budgets for FY 1982 and FY 1983, which are sufficient to provide the support necessary to complete these critical renewal talks.

11. Your submission states that personnel previously involved in the steel TPM are now processing the steel industry's antidumping and countervailing duty cases. Are you able to meet the statutory deadlines on other industry cases in light of a decline in positions for antidumping and countervailing duty staffs investigations from 57 to 46 and for compliance from 117 to 94 from FY 1981 to FY 1982 and 1983? What are your plans for the personnel who previously administered the TPM once the steel cases are completed and if the TPM is not restored?

The positions previously devoted to operating the steel TPM are now devoted to processing the cases filed by the steel industry. We will continue to meet our statutory deadlines for new cases filed on other products. We may suffer some slippage on deadlines for the annual reviews of old cases, as some experienced people from the Office of Compliance, which handled those annual reviews, have been shifted to the steel investigations, while less experienced people who worked on the TPM are handling compliance cases. Slippage on deadlines on annual reviews do not prejudice the U.S. industry, as imports continue to be subject to the outstanding antidumping or countervailing duty order.

When the steel cases are completed, assuming some form of TPM is not reinstated, staff will be put to work on eliminating the backlog of annual reviews.

12. Section 282 of the Trade Act of 1974 directed the Secretary of Commerce and the Secretary of Labor to establish and maintain a trade monitoring system of levels and changes in imports in relation to domestic production and employment. Section 608 of that Act also directed the Secretary of Commerce, in conjunction with other agencies, to establish detailed comparability of import, export and production statistics.

12A. What is the status of the trade monitoring system and of the comparability work called for under section 608?

The Census Bureau is involved in several activities that will help meet the objectives of section 608. Comparable data for production, exports, and imports for some commodities are published on an annual or more frequent basis in the Industrial Report program.

A more comprehensive system being developed for trade monitoring is based on the Standard Industrial Classification (SIC) system for which employment and other data would generally be available. Data relationships are developed for the industry level of detail and also for the product detail collected in Census Bureau programs such as the Census of Manufactures or in other commodity statistical programs such as those conducted by the U.S. Department of Agriculture and by the Bureau of Mines. These data will be published in our annual report on U.S. Commodity Exports and Imports as Related to Output.

To improve monitoring of textile imports, a new computer system is being tested by the Census Bureau. This system will include the most recent data on domestic production of textiles as well as imports and exports. Each month Census supplies data tapes for use by the Department of Labor and the U.S. International Trade Commission in their trade monitoring programs. These tapes contain the detailed quantity, value, and country data by export and import classification codes.

The major work to develop more comparable classification systems resulted in the complete revision to the export schedules for 1978, and considerable expansion of the statistical detail for imports for the same year. More recent activities were to develop changes for the planned 1982 revision of the Standard Industrial Classification (SIC) that would improve comparability and to work with trade associations to improve comparability in several product areas. The SIC revision has been dropped because of the general lack of funds among statistical agencies for implementing the 1982 revision.

The Census Bureau has made a considerable effort to develop the Harmonized System (HS). They have developed U.S. positions and provided representation at meetings of the Harmonized System Committee to take actions on proposals. Census has concentrated on making the HS reflect the interests of U.S. producers and exporters, as opposed to the primary customs orientation of the system. The HS will be the foundation of future comparability efforts if it is adopted by the U.S., and possibly even if it is not formally accepted because of its import in defining the statistical detail of the Standard International Trade Classification (SITC).

12B. To what extent is the Census Bureau providing input into the monitoring system developed by the ITC and to what extent is the effort being coordinated with Census?

Census has contributed minimal input into the ITC monitoring system-- other than the provision of trade data. The Bureau reviewed the system in its early stages and provided comments. The ITC system concentrates on import/export relationships and does not take into account the structure and detail used in classifying production data on a comprehensive basis. The Bureau has concentrated on developing a system related to the SIC system, for which employment and related data would generally be available.

12C. What are the status, future plans, and timetable for work in conjunction with possible adoption of the Harmonized System?

As noted briefly above, Census has been participating fully in work on the policy questions and technical detail of the Harmonized System (HS) since enactment of the Trade Act of 1974 and plans to continue its role in this effort.

Most substantive work on the HS technical detail is scheduled for completion this month. Considerable work must then be done at the Customs Cooperation Council (CCC) in preparing the system for use. Certain important policy questions still remain open. The most significant are the required detail of the new system and the conditions and requirements for adoption. The official CCC date for adoption of the new system is January 1, 1985.

We are proceeding in planning work for the possible adoption of this system on the basis of the 1985 date being retained and changes to the U.S. export and import systems becoming effective that year. This, of course, depends on acceptance by the U.S.

The HS is regarded as a 6-digit core system for the U.S., with additional detail below this level to be added within our export and import systems to meet the different domestic requirements and needs. ITC has published a detailed timetable for conversion of the Tariff schedules into the HS and is currently working on this revision. The first drafts of such conversions were published by ITC for public comment on January 29, covering about one-third of the HS chapters. Work on the new U.S. export schedule will begin later this year and will trail that on the import schedule. The Bureau will be participating in the work on both systems.

The complete HS has been placed on computer records. Draft computer correlations have been prepared which relate the HS detail to existing U.S. production, export and import classification systems and detail. These are being reviewed and corrected, and also updated to reflect revisions still being made to the HS. These correlations will be utilized in converting the U.S. export and import systems and in reviewing the production detail for possible change. They will permit consideration of all systems concurrently in decisions made on new detail, including decisions on the 1987 SIC industry and Census product detail. They will also provide conversions between the new and old systems and will be converted to correlations among the new U.S. systems and used as a basis for relating data.

Most changes for production could not be implemented until 1987, with the exception of commodities covered in the Current Industrial Report (CIR) series. Some of the CIR detail may require extensive revision, such as that for textiles, apparel, or steel.

Considerable work will also be essential within the Bureau to implement use of the new classification detail, including preparation and publication of new reporting manuals and alphabetic indexes; revisions to collection and compilation procedures, edits, and computer programs; revisions to publication methods, formats, and code correlations; and eduction of shippers.

12D. What are the funding requests in FY 1982 and FY 1983 for each of these activities?

The Census Bureau's 1982 budget includes $922,000 for trade monitoring and comparability work. The 1983 request is for $946,000.

12E. Why have no increased funds been requested for the Harmonized System work in FY 1983? How much money is needed in FY 1983 for this purpose? If these funds are taken from trade monitoring activities, how will that effort be affected?

Budget constraints prevented inclusion of additional funding for the Harmonized System in the President's budget for FY 1983.

In the course of the 1983 budget review, the Department of Commerce had identified $365,000 as the minimum amount needed for Census to undertake several activities to help the U.S. make a sound decision on the questions of adoption and implementation of the Harmonized System. The international timetable for implementation of the Harmonized System is January 1, 1985, and the International Trade Commission has already begun to work on analyzing the impact of the Harmonized System on the tariff schedules. Timely conversion of the statistical classification systems requires Census to begin work immediately also.

The trade monitoring activities are already underfunded for the work that should be accomplished. Using funds from this area of work would generally result in less comparable data provided and less timely availability of remaining data.

INTERNATIONAL TRADE ADMINISTRATION
TRADE ADJUSTMENT ASSISTANCE

1. Does the Administration plan to submit legislation to eliminate the program as of October 1, 1982, or to leave the statute on the books without funding?

A decision has not yet been reached whether the statute should be amended to terminate the program on September 30, 1982. The present statute will terminate on September 30, 1983, so that even if a decision is made not to terminate this year, the legislation will only have one additional year to run. In any event, whether termination is set for 1982 or 1983, it will be necessary to continue Section 257 in force to enable the existing portfolio of loans and loan guarantees to be serviced properly.

2. As a justification for seeking elimination of the program your budget submission states that only about 65 firms per year have benefitted from loans and loan guarantees. Haven't many more firms, in fact nearly all that have been certified, also received technical assistance?

Of the 1330 firms certified since passage of the Trade Act, we estimate that 1184 have received technical assistance.

3. Your budget submission also states that a significant portion of the firms receiving financial assistance each year have failed to adjust to import competition. Would you be more specific as to the proportion and the basis of your assessment? Have these failures been concentrated in any particular industries, in any particular periods of time, or in any particular firm circumstances? Isn't the other side of the coin that the proportion who have adjusted may not have been able to do so in the absence of this program?

The last analysis of the trade portfolio was completed in April 1981. Of the principal balance then outstanding for all Trade Act loans, 43.3% was either past due, in liquidation or had been charged off.

The failures were roughly proportional to the number of firms in the various industries that have received financial assistance. Thus, most of the failures have been in apparel, footwear and handbags.

Most of the failures have been on loans and guarantees granted in fiscal 1978 and fiscal 1979. It is still too early to know what the appropriate percentages are for fiscal 1980 and 1981, since these loans have not matured.

4A. As of January 31, 1982, 616 firms have been certified eligible to apply for TAA but have not yet received financial assistance. How many firms do you anticipate will be certified but not yet recipients of financial assistance as of October 1, 1982?

By October 1, 1982, we estimate that approximately 415 certified firms will be eligible for, but will not have received trade adjustment financial assistance.

4B. How many in these two groups of firms are likely to have completed their adjustment proposals as of that date?

We expect approximately 125 firms to submit acceptable adjustment plans for FY 1982. About half of the acceptable plans include requests for trade adjustment financial assistance. The other half ask for technical assistance only.

4C. How many are likely to have had approval but not actual delivery of financial assistance as of that date?

For fiscal year 1982 we believe that we will approve 35 applications for trade adjustment loans and loan guarantees, of which 20 should be closed and disbursed by September 30, 1982.

4D. How much technical assistance will be provided in FY 1982 to help prepare petitions and adjustment proposals for firms who would subsequently receive financial assistance but for the October 1, 1982 cutoff date?

We estimate that during FY 1982, some 350 firms will receive technical assistance preparing certification petitions and that 250 firms will receive help preparing adjustment proposals. We also estimate that, of the latter 250 firms, some 75 would qualify to apply for loans and loan guarantees, and that 40 of these firms would be ready to submit loan applications after FY 1982.

4E. How many workers are likely to be affected by the termination of funding as of FY 1983?

Assuming that the program is terminated at the end of FY 1982, we estimate that employment among the 40 firms which would have been expected to have submitted loan applications after the current fiscal year ends will total approximately 10-12,000 workers.

4F. What industries in what states are most likely to be affected?

Approximately seventy percent of the eligible firms which have not received financial assistance are located in eight states--New York, Pennsylvania, New Jersey, California, Washington, Massachusetts, Indiana and Illinois. Eligible industries include food and beverages, electronic products, and textiles and apparel.

4G. What is the rationale for cutting off program funds for firms whose adjustment plans have already been approved prior to October 1, or are in process?

Whenever the program is terminated, there will always be some firms with adjustment plans in process. Many of these firms will have been helped by the technical assistance process whether or not they receive federal loans and loan guarantess.

5A. Technical assistance on an industry-wide basis has included about $2 million annually for an export development program in the textile and apparel industry. Will funding of this program also be eliminated as of October 2, 1982?

Yes, as it relates to TAA funding. However, we expect to continue textile and apparel promotion under our regular programs.

5B. What other industry-wide programs would be affected by elimination of funding?

It is not possible, at this point, to identify the specific industries in addition to apparel, textile and footwear that would not receive assistance due to the termination of the program.

5C. What has been the experience of industry-wide assistance in terms of success of industry adjustment to import competition?

This form of assistance appears to have been generally successful. Assisted industries include apparel and textiles, footwear, handbags, steel, pipefittings, jewelry, textile machinery, mushrooms, etc.

Industry assistance projects have included development of improved production methods, marketing analysis and studies, utilization of improved technology, exploration of export opportunities, and assessment of possible energy savings. All reports and information developed through industry-wide activities are actively disseminated through reports and/or seminars to firms in the assisted industries.

6. Last year the Administration proposed a two-year extension of the worker and firm trade adjustment assistance programs through FY 1983. Now the Administration proposes eliminating funding of the program as of FY 1983. What has changed in the meantime to result in a change in the Administration position?

Last year, we were operating from an inherited budget, and we did not have time to study all the programs as fully as we desired. Having now had the benefit of a year's experience, we conclude that continuation of the program is not as important as the need to reduce Federal spending.

7A. The rate of firm certifications has declined per month recently. To what do you attribute this decline?

We are receiving fewer petitions for certification. This is due largely to two factors:

-- Uncertainty in the business community about the future of this program in particular and Federal subsidy programs in general; and
-- The TAACs' concentration on delivery of benefits as opposed to developing petitioners.

7B. In view of statutory obligations to inform firms about the program, why have previous outreach efforts been curtailed recently?

In September 1981, the TAACs were instructed to curtail self-initiated contacts because we believed firms would resent the appearance that the program was being imposed on them by the Government.

8A. What is the current default rate on loans?

As noted earlier, the last analysis of the TAA portfolio was completed in April 1981. At that time, of the principal balance outstanding for all Trade Act loans 43.3% was either past due, in liquidation or had been charged off.

8B. What efforts have been made to reduce the default rate and delays in repayment?

Since the transfer of the program to ITA, the Office of Trade Adjustment Assistance (OTAA) has instituted several new procedures to improve debt collection.

-- Coordinated effort among OTAA, the Trade Adjustment Assistance Centers (TAACs), and firm management in upgrading the quality of loans by devising adjustment plans that will work.

-- The financial analyst who prepares the project will be held responsible for the servicing, monitoring, and collecting for that project, including follow-through on reports from participating financial institutions.

-- OTAA will assess a penalty of one-half of one percent of the amount due for every payment more than fifteen days late. The penalty will be assessed cumulatively every 30 days until the payment is made.

-- TAACs will provide technical assistance to help firms implement their adjustment plans and overcome problems as they arise.

-- The Deputy Assistant Secretary for Trade Adjustment Assistance will take direct action in collecting, including telephone calls to, executives in delinquent firms.

Chairman GIBBONS. That concludes the public hearing for the day. We will reconvene tomorrow morning at 9:30 with public witnesses.

[Whereupon, at 12:07 p.m., the subcommittee was adjourned, to reconvene at 9:30 a.m., Friday, February 26, 1982.]

FISCAL YEAR 1983 AUTHORIZATION FOR CUSTOMS SERVICE, INTERNATIONAL TRADE COMMISSION, AND U.S. TRADE REPRESENTATIVE; RECOMMENDATIONS FOR MARCH 15 REPORT TO BUDGET COMMITTEE

FRIDAY, FEBRUARY 26, 1982

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, D.C.

The subcommittee met at 9:37 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

Chairman Gibbons. Good morning, ladies and gentlemen.

I wonder if we could take seats and get started?

As all of you know, this is a meeting of the Subcommittee on Trade of the Ways and Means Committee. We are here on things having to do with the President's budget proposals and the budget process that we follow.

Our first witness is from the Air Transport Association of America, Mr. Norman J. Philion.

You may proceed.

STATEMENT OF NORMAN J. PHILION, EXECUTIVE VICE PRESIDENT, AIR TRANSPORT ASSOCIATION OF AMERICA, ACCOMPANIED BY JAMES GORSON

Mr. Philion. Good morning, Mr. Chairman. I am Norman J. Philion. I am executive vice president of the Air Transport Association of America, which represents virtually all of the scheduled airlines of the United States.

I am accompanied this morning by James Gorson, who is responsible for coordinating airline industry efforts to facilitate international air travel and trade, and working directly with the Federal inspection agencies of the U.S. Government in this regard.

I have a prepared statement for the record.

Chairman Gibbons. We will put that in the record.

Mr. Philion. In the interests of time, I will attempt to summarize.

Chairman Gibbons. Fine, sir.

Mr. Philion. Mr. Chairman, there has been some progress during the last year in the modernization and simplification of Federal inspection procedures. We commend the chairman and the members of this committee for taking the initiative and leadership role in securing the implementation of the GAO one-stop facilitation concept—ASIST—accelerated specialized inspection system test—at Miami and Los Angeles International Airports.

We believe that this has been an important first step toward the development of a more selective, expeditious passenger inspection system which can and should be expanded nationwide.

Unfortunately, however, comparable progress has not been achieved in the inspection of international air freight, and much remains to be done to improve and speed up the entry of international travelers into the United States.

Budget actions over the past several years have had the effect of reducing the number of available customs inspectors at our international airports. They have adversely affected the time required for, and private sector costs associated with, the federally imposed inspection of passengers and cargo both at preclearance points abroad and at U.S. airports of entry.

The fiscal year 1983 customs budget proposals include further expenditure reductions in the personnel area which, we understand, may reduce airport inspector levels by 150 positions.

Inspector staffing levels today often are inadequate to meet current airport inspection demands. This situation will worsen significantly in the coming peak international travel period and action to resolve it, in our opinion, is needed urgently now.

Either adequate numbers of inspectors must be authorized, or a high priority program to reduce inspector workload—through modernization, simplification, and consolidation of the functions of the several inspection agencies—must be initiated.

In this regard we strongly urge:

First. Extension of the accelerated specialized inspection system—ASIST—to airports of entry on a nationwide basis.

Second. Extension of preclearance—the inspection of air passengers prior to departure in the foreign country rather than on arrival in the United States—to more locations abroad.

Third. Undertaking on a priority basis an exploration of ways to consolidate the functions of the several inspection agencies—Customs, Immigration, Agriculture.

Fourth. Simplification of the processing of international air freight wherever possible through a customs automated inventory control system linked to airline computers.

Fifth. Introduction of further customs sampling techniques for processing international air passengers and cargo.

Although these measures will not eliminate the need for customs inspector staff resource adjustments as international traffic continues to grow, they would moderate such resource demands in the future.

While we believe they would increase inspector productivity without compromising customs requirements or the inspection process, even if all of these measures were promptly adopted, they would not substitute entirely for needed inspector resources.

We find it difficult, therefore, to reconcile the proposed inspector staff reductions with the statement appearing in the budget message to the effect that customs intends to achieve maximum utilization of its resources with minimum disruption to international travel and trade.

Perhaps it depends on one's perception of the meaning of a "minimum disruption of international travel and trade."

Not only does the question of adequacy of customs staffing at international airports arise again this year, but new concepts for funding federally required inspections outside the Federal budget—that is, funding by airlines and airline passengers—are surfacing. They include the imposition of an additional international passenger fee to be used to augment inspection staffing, and the reintroduction of customs Sunday and holiday overtime charges at excessively high rates to be assessed against the airlines and, ultimately, international air travelers and shippers.

The combined cost to airlines and airline customers of these two proposals alone would be approximately $47 million in the first year.

In addition, we understand that legislation is now being developed within the administration and will be sought to permit the Customs Service to introduce a "user" fee package for recovering millions of dollars of direct and indirect customs inspection and administrative costs.

The cost of these customs services to be recovered from users is estimated, we understand, to be about $440 million on an annual basis. These costs, of course, would be charged to the airlines among other users.

The effect of charges of this magnitude would be devastating—both to the airlines, now suffering unprecedented financial losses due to the current economic situation, and to airline customers, already burdened by inflation.

In this connection, we should fully expect that fees and charges imposed here for these purposes would soon be duplicated or adopted by other nations where, by virtue of international treaties and agreements, they do not exist today.

And, if you are as concerned as we are about the retaliatory effects on U.S. companies abroad of the establishment of U.S. customs overtime and user charges affecting international air commerce, we ask you to consider the financial implications to U.S. airlines that operate to over 70 foreign countries.

Finally, the pending proposal for reimbursable Sunday and holiday customs overtime, for all practical purposes, would officially close the United States to international air traffic 61 days each year unless airlines, in effect, agree to pay the cost of operating Government services.

These concepts will no doubt be defended on the grounds that airlines and airline customers are beneficiaries or users of such services. However, airlines and airline passengers are not the beneficiaries of customs inspection services. They certainly are users, but only because they are required by Federal law to be inspected. They receive no special benefit unique to airlines or airline customers from the inspection—in fact, the inspection process itself is a distinct disadvantage in terms of loss of transportation time and convenience.

What frequently is overlooked is that the Federal laws requiring the inspection were enacted to protect the Nation and all of its citizens, by preventing the entry of undesirable products and animal and plant disease, by enforcing tariffs designed to protect American labor and business from destructive foreign competition and discrimination, and by collecting duties on imported merchandise.

It seems clear to us the responsibilities of the Customs Service were established by the Congress for the protection of the Nation and all of its citizens. The costs of meeting such federally imposed requirements and responsibilities, we believe, should be borne by all taxpayers from the general fund.

As the fiscal year 1983 budget message itself concludes: "In cases where the general public is the recipient of the benefits of a Federal program rather than a clearly identifiable group, user fees will not be imposed."

During fiscal year 1981, customs collected a record $9.1 billion, an increase of 11.7 percent over the previous fiscal year. This represents a return of more than $18 for every appropriated dollar spent in carrying out customs requirements and responsibilities.

In view of the national purposes of customs inspection functions, and customs' remarkable revenue generating record, we find it difficult to understand proposals to reduce customs manpower on the one hand, while at the same time shifting the responsibility for the funding of customs functions to private parties.

In summary, we strongly urge the subcommittee to assure authorization for adequate inspector personnel at our international airports, to direct the priority initiatives necessary to simplify the inspection process, and to consider carefully the implications and consequences of placing additional financial demands on the already limited resources of the airlines, particularly in this period of serious economic adversity.

That concludes my summary, Mr. Chairman. I would be pleased to attempt to answer any of your questions.

[The prepared statement follows:]

STATEMENT OF NORMAN J. PHILION, EXECUTIVE VICE PRESIDENT, AIR TRANSPORT ASSOCIATION OF AMERICA

My name is Norman J. Philion. I am Executive Vice President of the Air Transport Association of America, which represents virtually all of the scheduled airlines of the United States. Nineteen of our member airlines provide regularly scheduled air service between the United States and more than 70 countries.

We appreciate the opportunity to appear before the Subcommittee to discuss the fiscal year 1983 budget proposals for the U.S. Customs Service. Air transportation is the predominant form of transportation to and from the United States for international travelers. Air transportation also represents a very extensive, increasingly important and growing international air freight and mail distribution system. Since Customs inspection requirements directly affect this vital international commerce, and are mandatory at U.S. airports of entry, we are deeply interested in the impact of budget considerations relating to Customs staffing and procedures.

There has been some progress during the last year in the modernization and simplification of federal inspection procedures. We commend the Chairman and the members of this Committee for taking the initiative and leadership role in securing the implementation of the GAO one-stop facilitation concept (ASIST—Accelerated Specialized Inspection System Test) at Miami and Los Angeles International Airports. We believe that this has been an important first step toward the development of a more selective, expeditious passenger inspection system which can and should be expanded nationwide. Unfortunately, however, comparable progress has not been achieved in the inspection of international air freight, and much remains to be done to improve and speed up the entry of international travelers into the United States.

Budget actions over the past several years have had the effect of reducing the number of available Customs inspectors at our international airports. They have adversely affected the time required for, and private sectors costs associated with, the federally imposed inspection of passengers and cargo at preclearance points abroad and at U.S. airports of entry, notwithstanding the importance of efficient and productive U.S. international air commerce to the national economy.

The collection of Customs duties last year on imported merchandise at J. F. Kennedy International Airport alone was the third largest of any U.S. port of entry, amounting to $855 million. In 1980, visitors from abroad contributed $12 billion to the economy of the United States, and produced $1.4 billion in federal, state, and local taxes. A comparable level of expenditures and tax receipts was attained, we believe, in 1981. Foreign travel dollars represent our third largest source of export earnings. Yet we fail to recognize the importance of this contribution to our national economy, and continue to discourage and inconvenience international visitors and shippers with long lines and extensive delays during the Customs process. These delays, for the most part, are the result of inadequate Customs staffing and the unnecessarily complex inspection procedures.

The fiscal year 1983 Customs budget proposals include further expenditure reductions in the personnel area which, we understand, may reduce airport inspector levels by 150 positions. Inspector staffing levels today often are inadequate to meet current airport inspection demands. This situation will worsen significantly in the coming peak international travel period, and action to resolve it is needed urgently now. Either adequate numbers of inspectors must be authorized, or a high priority program to reduce inspector workload—through modernization, simplification, and consolidation of the functions of the several inspection agencies—must be initiated. In this regard, we strongly urge:

1. Extension of the Accelerated Specialized Inspection System (ASIST) to airports of entry on a nationwide basis.
2. Extension of preclearance—the inspection of air passengers prior to departure in the foreign country rather than on arrival in the U.S.—to more locations abroad.
3. Undertaking on a priority basis an exploration of, and reaching decisions on, ways to consolidate the functions of the several inspection agencies (Customs, Immigration, Agriculture).
4. Simplification of the processing of international air freight wherever possible through a Customs automated inventory control system linked to airline computers.
5. Introduction of further Customs sampling techniques for processing international air passengers and cargo.

Although these measures will not eliminate the need for Customs inspector staff resource adjustments as international traffic continues to grow, they would moderate such resource demands in the future. While we believe they would increase inspector productivity without compromising Customs requirements or the inspection process, even if all of these measures were promptly adopted they could not substitute entirely for needed inspector resources.

We find it difficult, therefore, to reconcile the proposed inspector staff reductions with the following statement appearing in the budget message:

"In enforcing the provisions of the Tariff Act of 1930, as amended, the inspection and control activity must: (1) accommodate the growth of persons and cargo entering this country; (2) open new ports of entry and expand service at existing ports to meet the needs of the traveling and importing public; (3) improve selectivity of Customs inspectional enforcement programs through improved techniques and equipment; and (4) achieve maximum utilization of Customs resources with minimum disruption of international travel and trade."

Perhaps it depends on one's perception of the meaning of a "minimum disruption of international travel and trade".

Not only does the question of adequacy of Customs staffing at international airports arise again this year, but new concepts for funding federally required inspections outside the federal budget—that is, funding by airlines and airline passengers—are surfacing. They include the imposition of an additional international passenger fee to be used to augment inspection staffing, and the re-introduction of Customs Sunday and holiday overtime charges at excessively high rates to be assessed against the airlines and, ultimately, international air travelers and shippers. The combined cost to airlines and airline customers of these two proposals alone would be approximately $47 million in the first year. In addition, we understand that legislation will be sought to permit the Customs Service to introduce a "user" fee package for recovering millions of dollars of direct and indirect Customs inspection and administrative costs. The cost of these Customs services to be recovered from "users" is estimated, we understand, to be about $440 million on an annual basis. These costs, of course, would be charged to the airlines among other "users".

The effect of charges of this magnitude would be devastating—both to the airlines, now suffering unprecedented financial losses due to the current economic situation, and to airline customers, already burdened by inflation, who would be called upon ultimately to pay the increased transportation costs here and abroad resulting from the government charges. In this connection, we should fully expect that fees and charges imposed here for these purposes would soon be duplicated or adopted by other nations where, by virtue of international treaties and agreements, they do not exist today. And if you are concerned, as we are, about the retaliatory effect on U.S. companies abroad of the establishment of U.S. Customs overtime and user charges affecting international air commerce, we ask you to consider the financial implications to U.S. airlines that operate to over 70 foreign countries. Finally, the pending proposal for reimbursable Sunday and holiday Customs overtime, for all practical purposes, would officially "close" the United States to international air traffic 61 days each year unless airlines, in effect, agree to pay the cost of operating government services.

These concepts will no doubt be defended on the erroneous grounds that airlines and airline customers are "beneficiaries" or "users" of such services. However, airlines and airline passengers are not the "beneficiaries" of Customs inspection services. They certainly are "users", but only because they are required by federal law to be inspected. They receive no special benefit unique to airlines or airline customers from the inspection—in fact, the inspection process itself is a distinct disadvantage in terms of loss of transportation time and convenience. What frequently is overlooked is that the federal laws requiring the inspection were enacted to protect the nation and all of its citizens—by preventing the entry of undesirable products and animal and plant disease, by enforcing tariffs designed to protect American labor and business from destructive foreign competition and discrimination, and by collecting duties on imported merchandise.

As stated in Customs' Annual Report for 1981, the mission of the Customs Service has been extended over the years in assisting in the administration and enforcement of some 400 provisions of law on behalf of more than 40 government agencies. The report states:

"Today, in addition to enforcing the Tariff Act of 1930 and other customs statutes, the Customs Service enforces reporting requirements of the Bank Secrecy Act; collects international trade statistics; cooperates with other Federal agencies and foreign governments in suppressing the traffic in illegal narcotics; and, enforces a wide range of requirements to protect the public, such as auto safety and emission control standards, radiation and radioactive material standards, counterfeit monetary instruments, flammable fabric restrictions, animal and plant quarantine requirements, and food, drug, and hazardous substance prohibitions."

It is clear that the requirements and responsibilities of the U.S. Customs Service were established by the Congress in the broad national interest, for the benefit and protection of the nation and all of its citizens. The costs of meeting such federally imposed requirements and responsibilities, therefore, should be borne by all taxpayers from the general fund. As the fiscal year 1983 budget message itself concludes: "In cases where the general public is the recipient of the benefits of a Federal program rather than a clearly identifiable group, user fees will not be imposed."

During fiscal year 1981, Customs collected a record $9.1 billion, an increase of 11.7 percent over the previous fiscal year. This represents a return of more than $18 for every appropriated dollar spent in carrying out Customs requirements and responsibilities. In view of the national purposes and benefits of Customs inspection functions, and Customs' remarkable revenue generating record, we find it difficult to understand proposals to reduce Customs manpower while at the same time shifting the responsibility for the funding of Customs functions to private parties.

In summary, we strongly urge the Subcommittee to assure authorization for adequate inspector personnel at our international airports, to direct the priority initiatives necessary to simplify the inspection process, and to consider carefully the implications and consequences of placing additional financial demands on the already limited resources of the airlines, particularly in this period of serious economic adversity.

Chairman GIBBONS. What do the airlines view as the major impediment to the inspection of air freight?

Mr. PHILION. Adequate numbers of personnel and a lack of a direction and movement forward to modernize the system through the use of computers.

Chairman GIBBONS. Explain to me more in detail what you think ought to be done.

Mr. PHILION. Let me ask Mr. Gorson to go into detail on the freight inspection system, Mr. Chairman.

Mr. GORSON. Thank you, Mr. Chairman.

Customs has devised a test in cooperation with some airlines, called an inventory manifest control system, which is designed to provide Customs with an online automated control system that records, correlates, and cross references individual clearances against individual or multiple airway bills on individual or multiple flights.

It has provisions to record special instructions for specific shipments, identifies items subject to warehousing, and produces warehousing transfer documents.

It identifies potential discrepancies and produces discrepancy reports. In short, it performs all the functions required for inventory control and does them solely as a result of posting of clearance documents.

The problem now is that Customs, because of their constraints on budgets, is not able to go forward with this testing, the interfacing with airline computers and equipment. We would urge that it not be discontinued, but go forward both at Los Angeles, with the Flying Tigerline, which is being terminated, and also at New York City's Kennedy Airport.

Chairman GIBBONS. Why did they terminate it?

Mr. GORSON. Reprograming budget constraints, sir.

Chairman GIBBONS. Do you all have a specific recommendation as to how much more we must put in the President's budget in terms of dollars to provide the level of Customs service that you would like to have?

Mr. PHILION. That is a difficult question to answer, Mr. Chairman, in view of the manner in which the Customs budget is presented to you.

For example, we know the total number of Customs employees that are to be reduced under that budget and our best estimate of the impact at airports is 150 positions, but we are not absolutely certain of that.

We know today we are understaffed at the level of about 200 inspectors now at the airports. I just cannot price out for you here today the cost not only of filling what we consider to be an understaffing situation—that is, 200 inspectors today, plus the 150 that are to be cut further in a way which would be helpful to you.

Our position simply is, we see a need either through the reallocation of resources, or additional funding, or a smaller reduction in their budget together with some greater priority for simplification efforts.

It is difficult to put that into a precise figure for your consideration.

Chairman GIBBONS. Which airports have the most serious passenger processing problems?

Mr. PHILION. New York, certainly; Los Angeles; Miami has improved a great deal, particularly with the ASIST program.

We are concerned that the ASIST program will be abandoned. It is working very well. We think it should be expanded.

Honolulu is a problem airport. I think those are the greatest problem airports, but the delays, the inconvenience extends, particularly in the peak travel period, to all of our international airports.

Chairman GIBBONS. You mentioned Miami. Were you present yesterday when the Commissioner testified?

Mr. PHILION. I was not, but Mr. Gorson was.

Chairman GIBBONS. As I recall, the Commissioner said when I asked him whether he had his ASIST reports ready, he said the processing in Miami had actually slowed down under ASIST.

I may be wrong in my recollection. Do you remember what he said?

Mr. GORSON. I believe he referred to the fact that enforcement interceptions were down rather than that processing was down. Actually, the processing has speeded up considerably.

Chairman GIBBONS. We never seem to have reports at the time we need them.

I am hoping that we will get this report in time to make a decision.

Mr. PHILION. I have gone through the Miami system myself, Mr. Chairman. You may have too. It is a remarkable system. It is quick, even in peak travel periods, and we hope the study reports are completed soon.

Chairman GIBBONS. Well, I haven't gone through it personally. My staff has been down there to see it. I think it is an improvement over what they have had in the past. Almost anything would be that.

I imagine the problem at New York, Los Angeles, and Honolulu, are all caused by the peaking of traffic at one particular hour of the day.

I realize that airlines are not going to be able to decide that problem of peaking by their own operation in the marketplace because they want to get there when the market is available, but could the Government become a referee on peaking and try to do something about the peaking of flights at one particular hour at an airport terminal?

Mr. PHILION. The Government has already, as you probably know, undertaken initiatives in this field as a result of the air traffic controllers' situation.

Let me speak for a moment on peaking.

At our international airports, the peaking extends over a rather large segment of the day, so it is not just 1 hour or 2 here and there. Peaking is not only the result of market demands, but of geography, time zones, the windows—so to speak—of when flights can be operated.

When you are flying from Tokyo to the west coast, or Europe to the east coast, or vice versa, there are only limited periods of the day in which you can operate and carry any passengers.

So there is a peaking problem. With respect to the air traffic controllers' situation, as I am sure you are aware, the Government has made an effort as a result of constraints in the system to spread arrivals and departures out throughout the day, but we still have delays and congestion at our international airports.

Chairman GIBBONS. Up until a few years ago you all paid for the overtime of customs agents on Saturdays, Sundays, holidays, things of that sort. When were you relieved of that burden?

Mr. PHILION. I believe that was in 1975.

Chairman GIBBONS. You are seriously resisting having to go back paying overtime like other people do?

Mr. PHILION. Mr. Chairman, we did not think it was right before 1975 to impose on private parties the staffing costs, the overtime staffing costs as well, for conducting inspections required by Federal law.

We think if inspections are required that that ought to be borne by all of the beneficiaries, all of the recipients of the purposes of that inspection.

Our overtime laws affecting customs—as I am sure you are aware—were established before the day of the airplane. They were established when vessels arrived on Sundays and holidays and could anchor in the harbor and wait until normal working hours on Monday.

The airline industry has changed transportation a good deal, and we operate 24 hours a day, 7 days a week.

In short, Mr. Chairman, we just do not believe that that is something that private parties ought to bear.

Chairman GIBBONS. I hope you can understand the problem of Congress. Everybody we talk to does not think they ought to bear anything. Unfortunately, we have to spread it out. It is just one of the facts of life.

Mr. PHILION. Mr. Chairman, the airlines certainly agree on the need for constraints. There is no industry in this country that needs a boost to the economy as much as the airline industry does and all that goes into the program to improve the economy.

On the other hand, it is increasingly difficult for the airline industry to afford the constant demands for greater participation in funding projects and programs in which they have no direct benefit.

Chairman GIBBONS. You all change your rates on Sundays, change your ticket fare costs on Sundays. Most airlines give you a discount to fly on Sundays today.

Mr. PHILION. Mr. Chairman, we operate to 70 countries in the interests of U.S. air commerce. We would have a very complex system if we had different rates to some countries on Sundays and holidays than we had to others.

Furthermore, I think we could be inviting reciprocal treatment in most every country we operate.

Chairman GIBBONS. No other countries charge you for overtime for customs agents?

Mr. PHILION. With one or two exceptions, most countries do not.

Chairman GIBBONS. What are those exceptions?

Mr. GORSON. The exceptions, Mr. Chairman, are those countries which are called less developed countries.

In other words, some of your African and South American countries, but no developed country today, such as Japan, Western Europe, or Canada, charges overtime.

Our friends, the Canadian airlines, fail to understand why, when we fly to their country although, they do not charge us, when they fly here, we hit them with a 1911 law with this excessive overtime charge, which on a Sunday, outside of regular tours of duty, for a few minutes' service, a customs inspector is paid 2 full days' pay.

Chairman GIBBONS. I don't get to go through the regular customs procedures as often as I perhaps should and would like to because oftentimes when I travel overseas I am traveling on military aircraft. I am sure the procedure is different at Andrews than it is at, say, Dulles.

I have been through Dulles a number of times, but I always get the impression when I am on an airplane, even though I am supposed to know a lot about the laws, that I am handed a form that is hard to read and hard to understand, even if you deal with it every day.

The questions on it are subject to a lot of various interpretations and I just think about the poor traveler sitting next to me or across the aisle from me that probably has not the slightest idea what they are doing.

It seems to me like there is a scarcity of information given to passengers either at the time they go overseas or at the time they come back from overseas about these matters of customs, and immigration, and agricultural types of inspections.

Have you all ever mentioned to the agencies that they could improve their services? Have you ever given them any suggestions as to how they could improve their service?

Most of the time I get my Customs information by some stewardess in a very hurried way, passing out forms and not much else to it.

Then you run into the confusion.

I think most Americans are law-abiding and would pay the taxes they owe, would refrain from purchasing things overseas if they knew they couldn't bring them back into the United States.

A lot of this hassle that goes on could be eliminated. Am I wrong in this?

Mr. PHILION. No, Mr. Chairman. I think you are right. The short answer to your question is yes, we have given suggestions to the Customs Service on simplification of the forms and the instructions and getting the word out.

Let me add one other observation: We had the pleasure last year of accompanying a subcommittee of this House holding hearings on the inspection process at John F. Kennedy International Airport in New York. The hearings were extensive and were held with all of the parties of interest, including the services, their employees, the transport companies, and then we accompanied the subcommittee through the various inspection facilities. This was in a nonpeak day in early June, and I must tell you, Mr. Chairman, the subcommittee and the press that accompanied them were shocked.

The passengers waiting in line were near rioting because of the delays. The delays were the result of inadequate staffing of Customs inspectors. There were no complaints about forms.

Chairman GIBBONS. You know, most of us are accustomed any time we go to New York, even to cross the street in New York, we get insulted. The people push you. That is probably one of the most inhuman places in the world.

I admit the Federal Government is responsible for a lot of that inhumanity to man there, but go ahead.

Mr. **Philion**. The point I was coming to is, once the passenger gets through these long lines and gets to the Customs desk, the inspection process was very simple. The problem was just getting there. Most people are amazed after waiting all that length of time—and we talked to people who had been waiting for 2 hours—once they got to the Customs inspector, they were amazed at how little was required and how simple the inspection process really is.

Chairman **Gibbons**. Is that because of the layout of the airport or what?

Mr. **Philion**. No. The airport is fairly well laid out. About half of the inspection booths were unmanned.

Chairman **Gibbons**. Why were they unmanned?

Mr. **Philion**. The number of inspectors available were not adequate for the traffic.

Chairman **Gibbons**. That is a customary problem?

Mr. **Philion**. It has been for some years, Mr. Chairman. As we pointed out to this committee last year, we saw a need for 230 additional inspectors in 1981 and those were not authorized.

Chairman **Gibbons**. Thank you very much.

Mr. **Philion**. Thank you.

Chairman **Gibbons**. Any questions?

Mr. **Philion**. Thank you, Mr. Chairman.

Chairman **Gibbons**. Our next witnesses will be from the Airport Operators Council International, Mr. J. J. Corbett.

STATEMENT OF J. J. CORBETT, VICE PRESIDENT FOR FEDERAL AFFAIRS, AIRPORT OPERATORS COUNCIL INTERNATIONAL, INC.

Mr. **Corbett**. Good morning, Mr. Chairman.

Chairman **Gibbons**. Good morning, Mr. Corbett.

Mr. **Corbett**. With your permission, Mr. Chairman, I would like to submit our entire statement for the written record and, if I may, I will walk you through our attachments which I think are more relevant for the purposes of our discussion.

Chairman **Gibbons**. Fine.

Mr. **Corbett**. Since we appeared before you last before the Oversight Subcommittee, Mr. Chairman, not this subcommittee, I would like to identify the Airport Operators Council International as a trade association of the airports around the world and in the United States at which the Customs and Immigration problems occur.

Within the United States our membership includes public airports enplaning 90 percent of the U.S. domestic traffic, virtually all of the U.S. international traffic, and, worldwide, our members emplane two-thirds of all of the world's traffic.

Our members are listed on attachment A.

Mr. Chairman, attachment B, I think, may give you some answers to the questions you posed to Mr. Philion in terms of the kinds of problems our membership is exposed to in terms of Federal inspection agencies.

A survey we did, attachment B, in 1981, indicates that 14 primarily of the largest U.S. international airports who enplane a total of 64 percent of all international traffic find their inspection services are just inadequate.

Another 11 airports, smaller ones generally, totaling 14 percent, find that their facilities and services are adequate.

If you run through the narrative of those airports from New York, Miami, Los Angeles, Chicago, and Honolulu, you will find a combination generally of comments on unmanned Customs and Immigration booths based upon manpower problems and 2-hour delays for passengers coming after 10- and 12-hour international flights.

The frustrations that occur to foreign visitors and returning U.S. nationals at our airports are of great concern to the cities at which they arrive and which share their frustrations.

The problem we see is a combination of factors that right now doesn't seem to be solvable. The number of international passengers coming to the United States by air between 1981 and 1983, according to Customs figures yesterday, will be up 16 percent between 1981 and 1983. However, the number of inspectors provided by Customs at airports during this same 2-year period is down 24 percent. You basically have an increase of workload of 50 percent or increasing delay per passenger.

There is no other alternative but to look at two possible solutions. Either we can do what we have asked you to do in the past, which is just add more manpower in some proportion to the amount of increasing traffic so the delays don't increase. Or we can do—as is our preference, and that is why we are here today—is to say "let's make the inspection process more rational" so we don't have to have as many inspectors per number of passengers.

That is why we are very favorably disposed to the ASIST program which this committee authorized last year and which has been very successful in both Miami and Los Angeles.

If you look at attachment 3, Mr. Chairman, to our testimony, you will see some of the comments coming out of Miami. Miami sees at page 2 of that attachment that over the 6-month period of the ASIST test, "in spite of an overall 7-percent increase in passengers, and an overall decrease in the total number of FIS staff available, we have shown a 40-percent increase in the volume of passengers clearing in 45 minutes or less; a 41-percent decrease in the volume of passengers clearing in 1 hour or more, and a 14-percent decrease in overall clearance times. These are excellent results."

Mr. Chairman, the experience in Los Angeles is similar.

The suggestions we would have for this subcommittee are four in number. We think that the ASIST program, or some close modification to that, has been proven both in terms of facilitation and enforcement at Miami and Los Angeles, and we would like the agencies to expand it this summer for peak season 1982 to an additional nine airports who emplane 41 percent of additional passengers who are ready, willing to have it in their facilities, and they are willing to help pay for it.

However, at this time the ASIST process, as you heard from the Commissioner yesterday, is not a panacea. It is still sensitive to manpower.

The request of Customs for airport personnel for inspection in 1983 is down 187 positions in the budget that you are considering now. We oppose that decrease and ask as a minimum you keep the staffing levels where they are while we try to improve the inspection process.

The third point, Mr. Chairman, has to do with who should pay. This is really the only part of our testimony which differs substantially from the recommendations you heard from Mr. Philion of the Air Transport Association.

In our letter to you of last November, we suggested that the passenger who arrives on a flight should pay for part of the cost of the Customs and Immigration and Agriculture inspectors at that airport; not the whole cost, but part of the cost.

We think, as do the airlines, that the United States benefits by having the inspection process. We also think the international traveler could benefit by a savings of time at a cost to him of no more than $2. We have suggested that a bill pending before the full committee, H.R. 4700, should earmark $2 of the $5 proposed to be charged to international passengers and have that made available to help Customs in terms of their manpower, their budget crunch.

So, it would be partially paid by the international passenger and partially paid by general tax funds.

I would like to offer to supply for the record, Mr. Chairman, some information that we just received from the International Civil Aviation Organization. The figures they say they have as of 1980 show that 67 nations charge passenger facility charges equivalent or higher than the $5 proposed in H.R. 4700 to be imposed on travelers coming to this country; 48 percent of all nations have $5 or higher. That revenue pays in a number of nations for airports, airways, and the costs of facilitation.

So, a $5 charge in our view is not an exorbitant amount to charge an international traveler to try to meet the kind of passenger-processing concerns we are articulating today.

The last issue we would recommend has to do with a long-term solution. We suggest that, long-term, this Congress should consider going to a single border management agency to combine the functions at least at airports of Customs, Immigration, and Agriculture.

The overhead of three agencies is outrageous. The kind of improvements that could come by having a single agency, in the view of our airport managers, is very great.

Our last suggestion, Mr. Chairman, is to recommend that this subcommittee hold an early hearing to get the results from both Customs and the General Accounting Office on the results of the 6 months of the ASIST program.

The reason we would like to encourage an early decision on implementing ASIST at other airports are twofold: One I have mentioned before. We have nine airports who would really like to have that inspection process in place at their airport by July of this year to hit the summer peak.

Beyond that, Mr. Chairman, we have a number of airports, Los Angeles, Minneapolis-St. Paul, Seattle, Tampa, and New York, which are about to go to final design on new international facilities. Until they know the traffic flow arrangement that Customs and the other inspection agencies will be imposing, they simply cannot come up with a final design.

That delay is costly.

To look at the situation at its simplest, if we keep the ASIST process only at Los Angeles and Miami, it is not very acceptable to people coming in at New York, Chicago, and San Francisco that the city post a sign saying "We are sorry things are bad here."

We think as many communities as possible should be offered the more rationalized process called ASIST.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of the Airport Operators Council International, by J. Donald Reilly and J. J. Corbett

Mr. Chairman, I am J. Donald Reilly, Executive Vice President of the Airport Operators Council International (AOCI). Accompanying me today is J. J. Corbett, AOCI Vice President—Federal Affairs. The Airport Operators Council International is the association of the primarily local governments that own and operate the principal airports served by the scheduled airlines in the United States and around the world. Our member airports annually enplane more than 90 percent of the total domestic and virtually all of the U.S. international scheduled airline passenger and cargo traffic. Worldwide, our international member airports enplane two-thirds of all airline passengers on six continents (Attachment A).

On behalf of our U.S. members, and more particularly the largest 25 U.S. international airports that this year will receive more than 30 million arriving international passengers, we are grateful for this opportunity to comment on the fiscal year 1983 funding authorization for the U.S. Customs Service.

AIRPORTS AND FACILITATION

At the beginning it might be helpful to more fully describe the role of the airport operator and its community in the U.S. international facilitation program. For foreign visitors traveling by air, the airport and its reception and Federal Inspection Services (FIS) create their first impressions of the United States and, more particularly, of the city of arrival. How these visitors are treated in the inspection process is thus highly important to the community operating that airport.

Returning U.S. nationals and residents often view the Federal inspection and clearance process somewhat differently, as a necessary but burdensome process seemingly designed to test their patience after a long, wearying international journey. For all these arriving international air travellers, the airport operator and its community wants to ensure a good impression, a warm welcome or a welcome home.

More specifically, while the airport operator has to provide the space and facilities in which the Federal Inspection Services undertake their screening of arriving passengers and baggage, it can neither directly influence the procedure used by the Federal agencies nor assure that adequate manpower will be available to avoid processing delay. Those are Federal Governmental decisions but we have had some suggestions for improvement that the FIS agencies are now responding to.

We have long urged that the Federal Inspection Services (Customs, Immigration and Agriculture) should, in close cooperation with U.S. international airlines and the operators of our nation's international airports, adopt all practicable measures to facilitate international air travel and to prevent unnecessary delays to aircraft, crews, passengers, baggage and cargo.

While Federal inspection and clearance procedures must emphasis the protection of the public from smuggling activities, particularly of narcotics, and from contraband agricultural products, communicable diseases and the illegal entry of aliens, we believe that these objectives are consistent with a vastly improved international aviation facilitation program.

SURVEY OF INSPECTION SERVICES AT U.S. INTERNATIONAL AIRPORTS

Mr. Chairman, our 1981 survey of U.S. international airports (Attachment B) indicates that the fourteen primarily largest airports enplaning some 64 percent of all arriving international air passengers judged their Federal Inspectional Services as

Inadequate. In contrast, an additional eleven international, primarily smaller, airports handling 14 percent of all air arrivals judged their FIS services to be Adequate.

A reading of the narrative responses from the international airports judged Inadequate is highly disturbing. Unmanned Customs inspection booths and two-hour passenger processing delays are too often cited. Contributing factors in passenger congestion are airline peaking of flights and inadequate facilities in airport arrival halls to handle all the passengers aboard jumbo jets that often arrive simultaneously.

There are, however, three recurring themes in these reports from around the nation. First, the numbers of arriving international air passengers in recent years has increased 5 percent to 15 percent annually. In these same years, the FIS agencies have been unable to increase their airport inspectional manpower levels at all or certainly not in proportion to the increasing workload. The net result has been unacceptable increases in average processing delays for arriving passengers at too many major international airports.

SOLE REMAINING OPTIONS: MORE EFFICIENT INSPECTION PROCESS OR MORE MANPOWER

All indications are that additional increasing delays simply will not be tolerated by the traveling public. The only remaining options are these:

(1) Either the FIS agencies must modify their inspection process to achieve the same or improved enforcement results in less time or

(2) The Congress must increase Customs and other FIS agency inspectional forces in some proportion to traffic increases.

Mr. Chairman, because of the budget constraints facing the Congress as exemplified by the tight budget proposed by the Administration for Customs in fiscal year 1983, we hope you will opt to require Customs to modernize its passenger inspectional process at all U.S. international airports.

ASIST TEST PROGRAM HAS BEEN HIGHLY SUCCESSFUL

The Subcommittee deserves a large measure of appreciation for its efforts in the fiscal year 1982 Customs authorization process to encourage Customs and the other agencies to undertake some innovative steps to improve their inspection process without diluting the enforcement function.

Mainly because of these pressures, Customs and the other FIS agencies have just completed a six-month test of a more efficient and facilitative inspection process at Los Angeles and Miami International Airports called ASIST (Accelerated Specialized Inspection System Test). The agencies are now reviewing the data from the test and are preparing their recommendations for submission to Congress.

At a hearing on ASIST held two weeks ago in Los Angeles by the House Treasury Appropriations Subcommittee, the Los Angeles Department of Airports testified strongly in support of ASIST's continuation there and its implementation at that city's planned $150 million new international terminal now in the final design stage.

Miami's documentation in support of ASIST (Attachment C) lists dramatic improvements: "In spite of an overall 7 percent increase in passengers, and an overall decrease in the total numbers of F.I.S. staff available, we have shown a 40 percent increase in the volume of passengers clearing in 45 minutes or less; a 41 percent decrease in the volume of passengers clearing in one hour or more; and a 14 percent decrease in overall clearance times. These are excellent results."

From the viewpoint of the FIS agencies themselves, results appear quite good. According to the tabulated results from the first three months of the six-month test period, the agencies report, generally, that enforcement results are up, average passenger processing time is down somewhat, and the slightly increased manpower cost to the agencies under the ASIST program may in part be a result of initial inspector retraining requirements.

AOCI RECOMMENDATIONS TO CONGRESS

1. Since the ASIST program has already proven itself in the two airport test locations, it should also be implemented, with modifications as needed, at as many other U.S. international airports of entry as can be configured to accept it for Summer 1982. At least nine additional U.S. airports with an additional 41 percent of all international arriving passengers want the ASIST program installed at these facilities for the Summer 1982 peak travel season.

2. ASIST is not a panacea. Adequate levels of FIS inspectors still must be provided to service increasing numbers of international arrivals. A reduction of 1,200 inspectors in Customs' fiscal year 1983 budget suggests a loss of 150 airport inspectors. We oppose these reductions. But, unless Congress allows more manpower, any improvement during fiscal year 1983 will have to be by process and not by numbers of inspectors.

3. In contrast to present practice, we believe that the international traveler should pay for part of the cost of the FIS airport passenger inspection process. We have proposed that the $3 international passenger charge that historically has been imposed to cover the Federal Government's cost of providing safe airport and airway facilities should be increased by $2 to a total of $5 to cover, as well, about half of the direct costs incurred by the FIS agencies for passenger processing.

If this user financing proposal, described in our November 2, 1981 letter to you (Attachment D) were to be enacted, Mr. Chairman, some $15 million of the funding authorization your Subcommittee will approve in fiscal year 1983 for Customs would come from the people who fly internationally rather than entirely from the general taxpayers who may not perceive any benefit from accelerating the airport inspection process.

4. Ultimately, AOCI members believe that Congress should move to a single border management agency to handle all passenger inspection functions. The cross-training that has occurred as part of the ASIST test program is a progessive step toward that broader objective.

EARLY FINAL DECISION ON NATIONAL IMPLEMENTATION OF ASIST NEEDED

This Subcommittee in our view can be most helpful in assuring that Customs and the other FIS agencies decide on early implementation of the ASIST inspection process without any unnecessary delay. As you know, the six-month ASIST test period ended on January 31 at both locations and all agencies are now tabulating the final data from which they will reach their decision as to the future of ASIST.

There is no reason why Customs shouldn't be ready by March 1 to testify, along with the General Accounting Office, before your Subcommittee on a final decision on ASIST and, hopefully, detail at the same time a nationwide implemenation program for this summer.

Airport operators need as early a decision as possible on the ASIST program because many airport communities (Los Angeles, Seattle, New York, Minneapolis-St. Paul) are in the final design phase for new and costly international arrival facilities and they need to know the future pattern of traffic flow to be used by the FIS agencies to complete those designs.

We were quite disappointed that, as soon as the initial ASIST results looked promising, we could not entice Customs into planning—even on a contingency basis—for additional ASIST locations for Summer 1982. As of last week, there were no Customs plans that we could discover for such an expansion of ASIST during the coming summer season.

Frankly, Mr. Chairman, we are disappointed at this absence of contingency planning. It will not be acceptable to New York and Chicago and Houston and Tampa simply to post signs in their airport arrival halls telling their international arriving passengers that "things are better in Los Angeles and Miami" because they have ASIST in operation.

In summary, Mr. Chairman, we would appreciate any assistance your Subcommittee could offer—through early hearings on the ASIST test results—to assure those other communities that ASIST, when approved and as modified, will not be denied them for the coming summer season.

Thank you.

ATTACHMENT A

FEBRUARY 1982

AIRPORT OPERATORS COUNCIL INTERNATIONAL ROSTER OF MEMBERS

UNITED STATES MEMBERS

ALABAMA:	Birmingham - Department of Aviation
ALASKA:	Alaska - Department of Transportation & Public Facilities Juneau - City and Borough of
AMERICAN SAMOA:	Pago Pago - Government of
ARIZONA:	Phoenix - Aviation Department
CALIFORNIA:	Bakersfield - Kern County Department of Airports Burbank - Burbank/Glendale/Pasadena Airport Authority Fresno - City of Los Angeles - Department of Airports Oakland - Board of Port Commissioners Palm Springs - City of Riverside - City of Sacramento - County of San Diego - Unified Port District San Francisco - City and County of San Jose - City of Santa Ana - Orange County Airport Santa Barbara - Municipal Airport Stockton - San Joaquin County
COLORADO:	Colorado Springs - City of Denver - City and County of Pueblo - Memorial Airport
DISTRICT OF COLUMBIA:	Washington - Metropolitan Washington Airports
FLORIDA:	Daytona Beach - Regional Airport Fort Lauderdale - Board of Broward County Commissioners Fort Myers - Lee County Airport Jacksonville - Port Authority Melbourne - Airport Authority Miami - Dade County Aviation Department Orlando - Greater Orlando Aviation Authority Palm Beach - Board of County Commissioners Pensacola - City of Sarasota-Manatee - Airport Authority Tampa - Hillsborough County Aviation Authority
GEORGIA:	Albany - Albany-Dougherty County Airport Atlanta - Department of Aviation Savannah - Airport Commission
GUAM:	Guam - Government of
HAWAII:	Honolulu - Department of Transportation
ILLINOIS:	Chicago - Department of Aviation Moline - Rock Island County Metropolitan Airport Authority Peoria - Greater Peoria Airport Authority Rockford - Greater Rockford Airport Authority Springfield - Airport Authority
INDIANA:	Fort Wayne - Board of Aviation Commissioners Indianapolis - Airport Authority South Bend - St. Joseph County Airport Authority
IOWA:	Cedar Rapids Des Moines - Department of Aviation Mason City - Municipal Airport Commission
KANSAS:	Topeka - Metropolitan Airport Authority Wichita - Airport Authority

KENTUCKY:	Lexington - Lexington-Fayette Urban County Airport Board Louisville - Regional Airport Authority of Louisville and Jefferson County Paducah - Airport Corporation
LOUISIANA:	Baton Rouge - Greater Baton Rouge Airport District Lafayette - Airport Commission New Orleans - Aviation Board
MAINE:	Bangor - City of
MARIANA ISLANDS:	Saipan - Bureau of Transportation Saipan - Mariana Islands Airport Authority
MARYLAND:	Maryland - State Aviation Administration
MASSACHUSETTS:	Boston - Massachusetts Port Authority
MICHIGAN:	Detroit - Board of Wayne County Road Commissioners Flint - City of Freeland - Tri-City Airport Commission Grand Rapids - Kent County Aeronautics Board Kalamazoo - Municipal Airport Lansing - Capital Region Airport Authority Muskegon - County Airport
MINNESOTA:	Minneapolis-St. Paul - Metropolitan Airports Commission
MISSISSIPPI:	Gulfport - Gulfport-Biloxi Regional Airport Authority Jackson - Municipal Airport Authority Laurel/Hattiesburg - Pine Belt Regional Airport Authority
MISSOURI:	Columbia - City of Kansas City - Aviation Department St. Louis - Airport Authority St. Louis County - Spirit of St. Louis Airport Springfield - Municipal Airport Board
MONTANA:	Great Falls - International Airport Missoula - County Airport
NEBRASKA:	Lincoln - Airport Authority North Platte - Airport Authority Omaha - Airport Authority
NEVADA:	Las Vegas - Clark County Department of Aviation Reno - Airport Authority of Washoe County
NEW HAMPSHIRE:	Manchester - Airport Authority
NEW JERSEY:	Trenton - Mercer County Airport Atlantic City - Airport Utility
NEW MEXICO:	Albuquerque - City of
NEW YORK:	Binghamton - Broome County Airport Buffalo - Niagara Frontier Transportation Authority New York - Metropolitan Airports Authority New York - Port Authority of New York and New Jersey Syracuse - Department of Aviation White Plains - Westchester County Airport
NORTH CAROLINA:	Asheville - Regional Airport Authority Charlotte - City of Greensboro-High Point - Airport Authority Raleigh - Raleigh-Durham Airport Authority
OHIO:	Akron-Canton - Regional Airport Cincinnati - Kenton County Airport Board Cleveland - City of Columbus - Port Columbus International Airport Dayton - Department of Aviation Toledo-Lucas County - Port Authority Youngstown - City of

OKLAHOMA:	Oklahoma City - Airport Trust Tulsa - Airport Authority
OREGON:	Portland - Port of
PENNSYLVANIA:	Lehigh-Northampton - Airport Authority Middletown - Pennsylvania/DOT Bureau of Aviation Philadelphia - Department of Commerce Pittsburgh - Greater Pittsburgh International Airport
PUERTO RICO:	San Juan - Puerto Rico Ports Authority
RHODE ISLAND:	State of Rhode Island - Division of Airports
SOUTH CAROLINA:	Charleston - County Aviation Authority Columbia - Metropolitan Airport Greenville-Spartanburg - Airport Commission
TENNESSEE:	Chattanooga - Municipal Airport Knoxville - Metropolitan Airport Authority Memphis-Shelby County - Airport Authority Nashville - Metropolitan Airport Authority
TEXAS:	Austin - City of Dallas - Department of Aviation Dallas/Fort Worth - Regional Airport Board El Paso - City of Houston - City of San Antonio - Department of Aviation
UTAH:	Salt Lake City - Airport Authority
VERMONT:	Burlington - Airport Commission
VIRGINIA:	Newport News - Peninsula Airport Commission Norfolk - Port and Industrial Authority Richmond - Capital Region Airport Commission
VIRGIN ISLANDS:	St. Thomas - Virgin Islands Port Authority
WASHINGTON:	Seattle - Port of Seattle - King County Airport (Boeing Field) Spokane - Airport Board
WISCONSIN:	Janesville - Rock County Airport La Crosse - Municipal Airport Milwaukee County - Department of Public Works
WYOMING:	Casper - Natrona County International Airport Cheyenne - Airport Authority Rock Springs - Sweetwater County Airport Authority

AOCI NON-U.S. MEMBERS

AUSTRALIA:	Canberra - Department of Transport
AUSTRIA:	Vienna - Airport Authority
BERMUDA:	Hamilton - Ministry of Marine and Air Services
BRAZIL:	Brasilia - Empresa Brasileira de Infra-Estructura Aeroportuaria (INFRAERO)
CANADA:	Ottawa, Toronto & Montreal - Transport Canada
DENMARK:	Copenhagen - Airports Authority
DOMINICAN REPUBLIC:	Santo Domingo - Aeropuerto Internacional de Las Americas
EL SALVADOR:	San Salvador - Comision Ejecutiva Portuaria Autonoma
ENGLAND:	London - (British Airports Authority) Heathrow, Gatwick & Stansted Scotland - Aberdeen, Edinburgh, Glasgow & Prestwick
FRANCE:	Paris - Aeroport de Paris

GERMANY:	Cologne/Bonn - Flughafen Koeln/Bonn GmbH Dusseldorf - Flughafen Dusseldorf GmbH Frankfurt/Main - Flughafen Frankfurt/Main Aktiengesellschaft Hamburg - Flughafen Hamburg GmbH Hannover - Flughafen Hannover Langenhagen GmbH Munich - Flughafen Munchen GmbH
HAITI:	Port-Au-Prince - Aeroport International Francois Duvalier
HONG KONG:	Hong Kong - Civil Aviation Department
IRAQ:	Baghdad - State Organization of Roads and Bridges
IRELAND:	Dublin - Aer Rianta/Irish Airports Authority
JAMAICA:	Kingston - Airport Authority of Jamaica
ISRAEL:	Tel Aviv - Israel Airports Authority
ITALY:	Milan - Societa p. Az. Esercizi Aeroportuali (SEA) Rome - Aeroporti di Roma S.p.A
JAPAN:	Osaka - Kansai (Osaka) International Airport Terminal Building Co. Ltd. Tokyo - Japan Airport Terminal Company, Ltd.
KOREA:	Seoul - Korea International Airports Authority
MEXICO:	Mexico City - Aeropuertos y Servicios Auxiliares (ASA) Mexico City - Direccion General de Aeropuertos (DGA)
NETHERLANDS:	Amsterdam - Schiphol Airport Authority
NETHERLANDS ANTILLES:	Sint Maarten - Juliana International Airport
NEW CALEDONIA:	Noumea - Chambre de Commerce et d'Industrie
NEW ZEALAND:	Wellington - Ministry of Transport
NIGERIA:	Lagos - Nigerian Airports Authority
PHILIPPINES:	Manila - Bureau of Air Transportation
PORTUGAL:	Lisbon - Aeroportos e Navegacao Aerea (ANA)
SAUDI ARABIA:	Jeddah, Riyadh & Eastern Province - International Airports Projects
SRI LANKA:	Colombo - Airports Authority of Sri Lanka
SWITZERLAND:	Zurich - Civil Aviation Department
TAHITI:	Papeete - Societe D'Equipement de Tahiti et des Iles
TAIWAN:	Taipei - Civil Aeronautics Administration
VENEZUELA:	Caracas - Instituto Autonomo Aeropuerto Internacional de Maiquetia

ATTACHMENT B

AIRPORT OPERATORS COUNCIL INTERNATIONAL

TABULATION OF SURVEY ON ADEQUACY OR INADEQUACY OF U.S. INTERNATIONAL INSPECTIONAL SERVICES AT U.S. AIRPORTS SPRING/SUMMER 1981

SUMMARY

I. U.S. International Airports With **INADEQUATE** Federal Inspection Services (with each's % share of total arriving international air passengers):

New York (JFK)	22% **
Miami	15% *
Los Angeles	7% *
Honolulu	6% **
San Francisco	3% **
Chicago	3% **
Houston	2% **
Seattle	1% **
Tampa	1% **
Detroit	1%
Baltimore/Washington	1%
Ft. Lauderdale	1%
Minneapolis/St. Paul	1% **
Denver	1%
	64%

II. U.S. International Airports With **ADEQUATE** Federal Inspection Services (with each's % share of total arriving international air passengers)

Boston	3%
Dallas/Ft. Worth	2% **
Atlanta	1%
Philadelphia	1%
Kansas City	1%
Bangor	1%
Las Vegas	1%
Portland (OR)	1%
El Paso	1%
Syracuse	1%
San Diego	1%
	14%

* Indicates the two locations, with 22% of total arriving international passengers, that have been selected by Federal Inspection Services (FIS) for summer/fall 1981 tests of GAO "one-stop" inspection system to reduce processing delays.

**** Indicates the additional nine locations, with an additional 41% of arriving international passengers, that would like the GAO "one-stop" inspection system implemented as well at their international airport facilities this Summer and Fall (without cost to the Federal Government for facilities modification) so as to reduce anticipated arriving passenger processing delays (from 2, 3, 4 hours).**

International Headquarters: 1700 K Street, Northwest, Washington, D.C. 20006 Phone: (202) 296-3270 Cable: AOCIHQ

TABULATION OF SURVEY ON ADEQUACY OR INADEQUACY OF U.S. INTERNATIONAL INSPECTIONAL SERVICES AT U.S. AIRPORTS

SPRING/SUMMER 1981

(Listed in Declining Order of Total U.S International Passengers (%))

I. THE FOLLOWING AIRPORTS FIND THAT THE U.S. INTERNATIONAL INSPECTIONAL SERVICES AT THEIR AIRPORT(S) ARE: INADEQUATE

THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY (22%)

Serious Delay Problems This Year

The Port Authority anticipates serious delay problems this summer at Kennedy International Airport. Federal Inspection Services are provided at five locations, four of which are operated by airlines - American, British, Pan American and TWA - and the International Arrivals Building, used by most of the foreign flag airlines, which is operated by the Port Authority.

Principal cause of these delays has been inadequate federal inspection, although bunching of aircraft arrivals at the IAB has contributed to the delays at times. Lack of sufficient Immigration inspectors creates serious problems at the IAB, TWA, American and British terminals, while a lack of Customs inspectors causes delays at IAB and Pan Am terminals. An additional 30 Immigration and 16 Customs inspectors are necessary at Kennedy this summer.

Typically, on a peak day, with long lines awaiting clearance in IAB, only 50% of the Immigration booths are manned and a somewhat greater percentage of the Customs booths are staffed. As a result, backups occur. Last summer, at the IAB alone, we were forced to hold 236 aircraft an average of 20 minutes with some flights held as long as an hour. During the first five months of 1981, before the peak summer season, 122 aircraft were detained and 30,000 passengers delayed. At times, clearance takes 2½ hours.

Possible One Stop Clearance

We believe a one-stop procedure in which one inspection officer, representing both Immigration and Customs, would examine all arriving passengers, prior to baggage delivery, could be implemented this summer and would be helpful. There would have to be flexibility in how this is implemented with consideration given to the existing physical constraints of each of the international terminals at Kennedy which could result in citizen and alien inspection being separately located. The U.S. citizen by-pass of INS which we presently have at Kennedy is a step in the right direction.

June, 1981

POSSIBLE TEST SITE: The Port Authority of New York and New Jersey endorses the GAO "one-stop" inspection system and urges that it also be tested at the John F. Kennedy International Airport this Summer and Fall. The Port Authority offers full cooperation, financial and managerial, in any extension of "one-stop" to Kennedy and would welcome the visit of a Customs/Immigration feasibility team immediately.

Longer Term Help

Without additional manpower or changes in procedures we will be in serious trouble throughout the airport. We anticipate an increase in the number of passengers held aboard aircraft as inspection area saturation becomes more frequent. One carrier has claimed it will reduce flights into Kennedy this summer if the problem is not solved. We anticipate that other carriers would do the same in the future.

These expectations could fail to materialize if foreigners become alienated by these excessive delays and cancel or select alternate, non-U.S. destinations for their trips. Such action would not only have a detrimental effect on airport activity, but also adversely impact the regional economy and the U.S. balance of payments.

MIAMI INTERNATIONAL AIRPORT, FLORIDA (15%)

Serious Delay Problems This Year

The growth in the number of international passengers arriving at the Miami International Airport over the four year period 1976-1980 suggests the magnitude of current problems.

In 1977 only one month exceeded 200,000 arriving international passengers. In 1979, ten months exceeded 200,000 passengers and one month exceeded 300,000 passengers. In 1981 airline schedule data indicate that eight months will exceed 300,000 passengers and three months will exceed 400,000 international passengers.

Preliminary data from the international airlines indicate average days of 14,000 to 15,000 F.I.S. arrivals can be expected at MIA over the complete four-month period from June 1 to September 30, 1981, with peak days of 18,000 to 20,000 F.I.S. arrivals during July and August 1981. (As an indication of 1980-81 growth: during the summer of 1980 there were approximately 50 flights per week from Europe to Miami; during summer 1981 there will be approximately 90 flights per week. During the summer of 1980 approximately 17,000 seats per week were scheduled from Europe to Miami; during summer 1981 there will be over 28,000 seats per week.)

Present projections indicate that approximately 25% of the total estimated 4,000,000 F.I.S. arrivals at MIA during 1981 will be U.S. citizens and approximately 75% will be foreign citizens. This would represent approximately one million U.S. citizen arrivals; slightly under one million foreign citizens from Europe, slightly over one million foreign citizens from South America and approximately one million foreign citizens from Central America and the Caribbean combined.

With over 800 airline flights per day, MIA is a major international-to-domestic connecting hub, and on many international flights over 50% of the passengers are connecting to domestic flights. The international-domestic airline rule permits these passengers to be ticketed through to, and transfer onto, a domestic flight leaving MIA one and a half hours after the arrival time of their international flight. This allows 45 minutes to pass through Immigration and Customs, 15 minutes to walk to the relevant domestic airline check-in desk, and 30 minutes to check in and walk to the domestic airline departure gate. Existing passenger clearance times, therefore, virtually guarantee that many of these international-to-domestic transferring passengers will miss their connecting flights, often causing great personal distress, particularly to families with children.

Possible One Stop Clearance

DESIGNATED TEST SITE : The Federal inspection agencies have chosen Miami International Airport as one Summer 1981 GAO "One-Stop" inspection test site. Airport management anticipates that the improved test process will commence about July 17. Expenditures of about $100,000 for carpentry and other modifications are estimated. Cooperation between the Federal agencies and the airport proprietor are good.

Longer Term Help

Miami International Airport anticipates that the one-stop clearance process will be successful. Accepting that O.M.B. has put a cap on both manpower hiring and overtime, in an effort to balance the Federal Budget, and, therefore, that the MIA F.I.S. supervisors can neither increase their existing staff, nor work their existing staff longer hours — and yet total F.I.S. arrivals will increase 20% and foreign citizen arrivals will increase 30% during 1981 -- we must obviously permanently change the present F.I.S. system of inspection, and provide some means for airports to assist financially in the hiring of inspectors during any federal freeze of inspector positions. Changes recommended are:

a. All non-critical staff of the Immigration and Customs Services should be redeployed to the front line, to the major gateway airports with high growth rates, such as MIA, to directly serve the public during peak arrival months at these airports.

b. The U.S. Customs system procedures should immediately be changed more towards the "Red/Green" system, especially for the growing volumes of European visitors with full passports and valid multiple-entry visas. In this regard, the U.S. Customs service should make greater use of computer-based profile/random sampling procedures.

c. The Immigration procedures for the large volumes of European "Inclusive Tour" passengers must be simplified.

d. The National and Regional Headquarters offices of the INS should cease their practice of drawing on MIA Immigration inspectors to handle the processing of illegal immigrants not entering at the Miami International Airport.

e. The high growth airports such as MIA should be permitted, and indeed encouraged, to pay completely for the hiring and staffing of all new F.I.S. staff required above present levels during any budget freeze period. MIA would recoup these increased operating costs through increased productivity of our physical facilities.

LOS ANGELES INTERNATIONAL AIRPORT, CALIFORNIA (7%)

Serious Delay Problems This Year

Los Angeles International Airport is one of the largest airports in the United States. It ranks third in the U.S. in total passengers and probably first or second if this ranking considers the number of passengers who originate from or are destined for the Los Angeles area. In calendar year 1980 over 3,650,000 international passengers were handled through this airport, an increase of more than 13 percent over 1979.

Even though domestic air travel continues to decline in the United States, international travel at LAX continues to experience record growth. This growth has far outstripped our ability to provide facilities to process these international passengers. A long term solution is now in the advanced designed stage. Construction of the new West Terminal will begin early next year with completion scheduled in advance of the 1984 summer Olympics in Los Angeles. This new international facility will be nearly as large as the combined square footage of all the existing passenger facilities at LAX.

It it our experience here in Los Angeles that the Immigration Service has been heavily impacted by this influx of international travel since this growth is largely the result of non-U.S. citizens coming to this country for business or pleasure.

However, as an interim solution to the congestion and delay problems which have been so prevalent, last year the Department undertook a program to erect large inflated structures adjacent to the current international facility which provides additional baggage claim. More importantly, they more than double the size of federal inspection service space available to process international travelers.

Possible One Stop Clearance

DESIGNATED TEST SITE : The Federal inspection agencies have chosen Los Angeles International Airport as one Summer 1981 GAO "One-Stop" inspection test site. Airport management anticipates that the improved test process will commence about August 1. Expenditures of about $150,000 for carpentry and other modifications are estimated. Cooperation between the Federal agencies and the airport proprietor are good.

Longer Term Help

Los Angeles International Airport anticipates that the one-stop clearance process will be successful. An early decision for permanent implementation of this process is needed from the inspection agencies so that the design for the new West Terminal can incorporate the final inspection process. Construction of such a new facility must be completed for the 1984 Summer Olympics in Los Angeles.

HONOLULU INTERNATIONAL AIRPORT, HAWAII (6%)

Serious Delay Problems This Year

We are certain serious delay problems will be repeated this summer in the International Arrivals Building at Honolulu International Airport.

Subsequent to the completion of the International Arrivals Building in 1972, continued increases in passenger arrivals, compounded by the high concentration of multiple and concurrent aircraft arrivals within a one-half or one-hour period, have overburdened the capacity and processing capability of the facility.

Modifications were made to the Customs processing area (ground level) in December 1979 by the conversion of the selective inspection system (SIS), originally installed, to CAPIS to accommodate the increased passenger demand and improve processing time of the facility. This system was completed and in operation as of January 1980.

However, the system again is overloaded as the facility cannot accommodate the peak-hour surge of foreign arrival passengers. Currently, average peak-hour passenger processing through the system (from time of deplaning to exiting Customs) has taken between 1 hour 30 minutes to 1 hour 45 minutes, and in some instances, in excess of 2 hours. At the present time passengers are being held in the aircraft until the immigration hall is capable of processing additional passengers.

The high concentration of aircraft arrivals within the one-half and one-hour periods and the surge of passenger arrivals far exceeds the present space and processing capabilities of both Immigration and Customs Inspection facilities.

Holding rooms are not provided to accommodate passengers during peak-hour arrivals. When the immigration inspection facility is filled to capacity (presently set at 1,000 passengers) arriving passengers are held at the aircraft, or if security permits, at the arrival gate.

Upon entering the facility, passengers are confronted with long queuing lines, lengthy processing times, and congestion occurring at inspection areas, baggage carrousels, and post-processing activities at the Customs level.

Current peak-hour processing time of 1½ to 2 hours from time of deplaning to time of exiting the customs facility far exceeds the acceptable processing time of 1 hour established by the State Department of Transportation. If improvements to the facility are not provided, processing time is expected to exceed 2½ to 3 hours by 1985 and over 4 hours by the year 2000.

Currently, only 75% of Immigration inspection stations (18 of 24) and 78% of Customs inspection stations (22 of 28) are staffed during peak-hour arrivals.

Possible One Stop Clearance

POSSIBLE TEST SITE : The Honolulu International Airport endorses the GAO "one-stop" inspection system and urges that it also be tested in Honolulu this Summer and Fall. The Honolulu Airport offers full cooperation, financial and managerial, in any extension of "one-stop" to Honolulu and would welcome the visit of a Customs/Immigration feasibility team immediately.

Longer Term Help

By 1985 processing time will take 180 and 138 minutes with 80% and 100% staffing respectively. It should be noted that these times do not include waiting for release from aircraft and waiting for baggage at carousels. This is based on the existing process which includes CAPIS (Customs Accelerated Passenger Inspection System).

SAN FRANCISCO INTERNATIONAL AIRPORT, CALIFORNIA (3%)

Serious Delay Problems This Year

Yes, we anticipate serious delay problems this Summer in our International Arrivals Area. These problems are a continuation of the problems of the past two years. We have attempted repeatedly to get those carriers utilizing our International facilities to space their arrivals so that we might minimize the congestion and delays. We have not been highly successful. Although you may be aware of the critical International passenger processing situation here at San Francisco, I would like to briefly review the serious constraints which exist. In the early 1970's the airport had planned to, in the face of increasing International traffic, enlarge its Federal Inspection Service processing capability. Litigation resulted in delays and significant cost escalations which effectively prohibited proceeding with the project. As International traffic into San Francisco increased, our facilities remained in a marginal condition.

Our processing capabilities approximated 300 passengers per hour until a recent modification which has effectively increased passenger processing 30%. This modification was a rearrangement of the passenger flows within the Customs area. This was not at all an enlargement because physical constraints exist which preclude any enlargement of that area. We are subject to the impacts of foreign slotting and are facing an ever increasing passenger volume.

We have fortunately been able to re-orient our modernization program. Our new International Arrivals facility, presently under construction, is still, however, some two and a half years away from completion. This, of course, means that we will face three peak summer travel periods prior to gaining the much sought after relief.

Aside from the physical constraints, inadequate Immigration manpower continues to plague this airport. Immigration insists upon starting work at 8:00 A.M. when International Arrivals, especially in the spring, consistently arrive ahead of schedule. Additionally, the airlines in general give a lower priority to incoming flights than departing flights and fail to deliver 'hold' bags in a timely manner.

The Immigration Service supplies manpower on a 60-1 ratio, whereas Customs supplies it on a 25-1 ratio. Since the International Arrivals area can only handle approximately 400 passengers per hour, this 60-1 ratio is extremely constraining and creates a severe bottleneck in our processing capability. We therefore face three problems.

1. Immigration manpower and the willingness of Immigration to adjust their schedule to the anticipated flight arrival.

2. The physical constraints which we have adjusted as much as possible and now must await the completion of our new International Arrivals facility for further passenger capacity processing increases.

3. The priority which the airlines give to outgoing baggage as well as the method of classifying baggage in foreign ports.

We do not see the situation as significantly improving but we certainly can ameliorate the consequences of our constraints. A Red Door/Green Door approach or the application of the Canadian System here at San Francisco would significantly improve our ability to process passengers and reduce congestion.

Possible One Stop Clearance

The one-step clearance process would be beneficial to San Francisco. In our above response, we suggested a Red Door/Green Door or a modified Canadian system. This, in effect, is a one-step process. If passengers could be questioned prior to receiving their bags, this would significantly improve the flow since during the time questions were being asked, bags could be delivered and passengers could be on their way. Presently, passengers are detained in Immigration because of the manpower ratio and then, once in Customs, are further detained by Customs in the routine checks. This airport would strongly support a "one-step" or Canadian type processing system.

POSSIBLE TEST SITE: San Francisco International Airport endorses the GAO "one-stop" inspection system and urges that it also be tested in San Francisco this Summer and Fall. San Francisco offers full cooperation, financial and managerial, in any extension of "one-stop" to San Francisco and would welcome the visit of a Customs/Immigration feasibility team immediately.

Longer Term Help

With the anticipated growth of International travel over the next five years, especially at San Francisco, and with no increase in Federal manpower levels and no streamlining of the inspection process, the problems will be severe. Currently, there are times when four 747's aircraft and two 727's arrive within 90 minutes of each other and passengers have to wait upwards of two hours, many of them aboard the aircraft at the gate until they can be processed. It is extremely frustrating for the passenger who in many cases has already spent 12 hours on the flight and a serious problem for the airport and the limited Federal employees having to deal with flaring tempers and conditions that are unbearable.

CHICAGO O'HARE INTERNATIONAL AIRPORT, ILLINOIS (3%)

Serious Delay Problems This Year

Chicago O'Hare International Airport is currently experiencing severe federal inspectional service problems due to existing space limitations. This problem is being corrected by a major renovation of these facilities underway at this time. These improvements are expected to provide a 35% increase in the processing of international passengers.

Possible One Stop Clearance

POSSIBLE TEST SITE : The City of Chicago Department of Aviation endorses the GAO "one-stop" inspection system and urges that it also be tested at O'Hare International this Summer and Fall. Chicago offers full cooperation, financial and managerial, in any extension of "one-stop" to Chicago and would welcome the visit of a Customs/Immigration feasibility team immediately.

Longer Term Help

The Department of Aviation in Chicago has recognized the need for additional F.I.S facilities in the long term, based on projected growth. A new international terminal is planned, based on these needs, and streamlining may be possible at the new facility.

HOUSTON INTERNATIONAL AIRPORT, TEXAS (2%)

Serious Delay Problems This Year

Very serious delay problems being experienced already this season. INS booths are seriously understaffed. When two international B-747 aircraft arrive, passengers are lined up virtually from the immigration booths all the way back to the aircraft gates. The interim facility being used in Houston was designed to FIS specifications and physically could handle 750 arriving passengers per hour. With current Federal manpower restrictions, however, not more than 500 passengers per hour are being cleared.

Possible One Stop Clearance

POSSIBLE TEST SITE: Houston International Airrport endorses the GAO "one-stop" inspection system and urges that it also be tested at the Houston International Airport this Summer and Fall. Houston offers full cooperation, financial and managerial, in any extension of "one-stop" to Houston and would welcome the visit of a Customs/Immigration feasibility team immediately.

Longer Term Help

A new terminal for all international arrivals has been approved and design specifications will be completed with a year. Opening of the new international terminal is set for 4-5 years.

SEATTLE-TACOMA INTERNATIONAL AIRPORT, WASHINGTON

Serious Delay Problems This Year

We have for some time endorsed increased manpower in both Immigrations and Customs. The number of agents handling off-season traffic is adequate. However, this same number is not adequate during spring and summer peaks and causes long delays in both Immigrations and Customs. We are reviewing modifications to Customs facilities due to configuration and cueing limitations. At the present time, the inspection agencies are manning just about half of inspection stations.

Possible One Stop Clearance

POSSIBLE TEST SITE : Sea-Tac endorses the GAO "one-stop" inspection system and urges that it also be tested in Seattle this Summer and Fall. Sea-Tac offers full cooperation, financial and managerial, in any extension of "one-stop" to Seattle and would welcome the visit of a Customs/Immigration feasibility team immediately.

Longer Term Help

If no help in either federal manpower or the inspection process is implemented, our international arrival facilities will be virtually impossible to utilize and many incoming flights will be required to hold passengers on board for several hours after long transoceanic flights. This will probably divert some traffic into airports of lesser congestion in the international arrivals area.

TAMPA INTERNATIONAL AIRPORT, FLORIDA

Serious Delay Problems This Year

Sudden significant increases in scheduled international flights with larger aircraft require immediate expansion of facilities and increased FIS manpower. Very little lead time aggravates problem. This Airport Authority is in the process of planning physical changes and will accomplish on expedited basis.

Possible One Stop Clearance

POSSIBLE TEST SITE : The Hillsborough County Aviation Authority endorses the GAO "one-stop" inspection system and urges that it also be tested at Tampa International Airport this Summer and Fall. The Port Authority offers full cooperation, financial and managerial, in any extension of "one-stop" to Tampa and would welcome the visit of a Customs/Immigration feasibility team immediately.

Longer Term Help

Under given assumptions, major problems indicated. However, it is expected that plans currently under way can be implemented avoiding such major problems.

DETROIT METROPOLITAN WAYNE COUNTY AIRPORT, MICHIGAN

Serious Delay Problems This Year

While our position, as stated in the AOCI 1977 survey, remains intact, the severity in the shortage of U.S. Inspection staffing has subsided due to the current economic decline. However, the continued Federal Inspection costs to the carriers (Inspector's Overtime) are in our opinion a deterrent in attracting additional foreign carriers (holding U.S. entry rights) and their instituting new service.

Possible One Stop Clearance

The streamlining of passenger clearance, such as the "one step process," would in the short term be beneficial both to the airport and President Reagan's cutback policy. We do, however, again emphasize the short term aspect for such cutbacks in personnel would greatly magnify the operational problems with an upturn in passenger activity.

Longer Term Help

Cutback in U.S. Inspection personnel, absent streamlining of both the procedures and the manpower charges, will continue to foster the downward trend in international air service.

BALTIMORE/WASHINGTON INTERNATIONAL AIRPORT, MARYLAND

Serious Delay Problems This Year

A sufficient number of Customs Inspectors are available to handle anticipated traffic. However, the availability of Immigration Department manpower is marginal at best.

BWI Airport is equipped with ten Immigration Inspector positions plus a secondary inspection position. Theoretically, if each position is staffed, as many as 1200 U.S. citizens or 300 foreign visitors can be processed each hour. Unfortunately, only four Immigration Inspectors are assigned to BWI and they are frequently detailed to inspection duty elsewhere. There are four additional Immigration Inspectors assigned to the Port of Baltimore who may be detailed to duty at BWI if they are available. A realistic evaluation of this situation with consideration of such personal factors as vacation, sickness and other priority duties leads to the conclusion that under the best of conditions, Immigration can only staff five of the ten available inspection positions at a time. It will take these five inspectors approximately two hours using present procedures and assuming there are few delays for passport and other problems, to clear 300 foreign passengers.

The Customs/Immigration facility at BWI is designed to handle wide body aircraft passenger loads with ten Immigration Inspection positions and eleven Customs Inspector positions. Each of the eleven Customs positions is equipped with a primary computer inspection terminal tied into the Customs automated passenger inspection system (CAPIS) designed to expedite the inspection process. Now the problem: the Customs Service proposes to remove four of the CAPIS terminals from BWI and install them at Pittsburgh, where they now have none. The Customs Service is doing this in spite of an anticipated heavy increase in foreign visitors through BWI. With all eleven CAPIS terminals in use, and using present procedures, Customs can clear 550 American citizens or 330 foreign visitors per hour. Reduced to seven positions, the number of persons cleared under ideal conditions would be 300 American citizens or 210 foreign visitors per hour. This action on the part of the Customs Service will result in a serious degradation of the Customs facility at BWI.

Possible One Stop Clearance

It is strongly recommended that the "one-step clearance process" be coupled with the Immigration Department "citizen bypass procedure." At BWI use of both procedures would solve several anticipated problems; Immigration and Customs personnel would be cross-trained in each other's specialties thereby solving the manpower problem; integration of Customs and Immigration information in the CAPIS computer system will expedite passthrough of passengers. At BWI a great deal more space will be available with the elimination of one set of inspection booths for the comfort of passengers waiting for inspection.

Longer Term Help

Assuming no increase in Immigration Department personnel, BWI will be hard pressed to clear more than two hundred foreign visitors through Immigration inspection within an hour. Obviously with anticipated DC10 loads in excess of three hundred passengers, this is an unacceptable condition.

Assuming that the "one-step clearance process" and the "citizen bypass process" is not adopted, foreign flights arriving at close intervals will saturate the available inspection facilities. The only alternative will be to schedule gate arrival times to accommodate Customs/Immigration capability.

FORT LAUDERDALE-HOLLYWOOD INTERNATIONAL AIRPORT, FLORIDA

Serious Delay Problems This Year

Customs manpower is adequate at present. INS manpower is approximately 40% of authorized positions. International charter flights are up 50% over 1980. This airport is experiencing a movement into the European/United Kingdom market as well as the already heavy Canadian charter market. As aircraft, such as the L-1011-500, arrive with a heavy load factor, serious delays could result in FIS clearance due to the unavailability of INS inspectors. At present, a total of 4 inspectors, including the chief, are available to service both this airport and Port Everglades. With the present freeze on hiring in the federal government, an increase in INS manpower is unlikely in the foreseeable future. At present, the FIS facility is adequate. The facility is used by both Commercial and General Aviation aircraft. The aircraft parking is ground loading. If the number of large aircraft continue to grow, separation of Commercial and G.A. facilities may have to be considered. This will further burden the already short manpower situation.

Longer Term Help

If international tourism continues to rise at its present rate, excessive delays will be encountered in clearance of FIS passengers and aircraft. Approximately 800,000 passengers will be clearing through the International Arrivals process. With the present staffing levels that handle over 200,000 passengers now, delays up to 2 to 3 hours are not inconceivable.

MINNEAPOLIS/ST. PAUL INTERNATIONAL AIRPORT, MINNESOTA

Serious Delay Problems This Year

Manpower for Customs has been reduced and Immigration manpower is very limited. The two agencies are proceeding with a combined work force in an effort to perform as satisfactorily as their limited numbers will permit.

Our present facilities were designed for the supplemental carriers and very minimal activity. Now, with scheduled transatlantic service, the facilities are inadequate. New FIS facilities are in the design stage.

Possible One Stop Clearance

POSSIBLE TEST SITE : The Minneapolis/St. Paul Metropolitan Airports Commission endorses the GAO "one-stop" inspection system and urges that it also be tested in Minneapolis/St. Paul this Summer and Fall. The Airports Commission offers full cooperation, financial and managerial, in any extension of "one-stop" to Minneapolis/St. Paul and would welcome the visit of a Customs/Immigration feasibility team immediately.

Longer Term Help

We are in the design stage for a new FIS at the Main Terminal Building which will handle 800 passengers per hour. Additional manpower will be essential for the program.

Any constraint to streamlining will create further delays in processing passengers and defeat our efforts to provide adequate service to the international passengers.

DENVER STAPLETON INTERNATIONAL AIRPORT, COLORADO

Serious Delay Problems This Year

Although Denver's flights requiring Customs and Immigration are increasing by only one per day to a total of 3, this addition will be a DC-10-30. We have been informed locally that staffing from both agencies will stay at the current level and may even be increased. However, since Denver Customs will not clear any widebodies now (even charters), it seems clear that the time required to process a moderately full DC-10 will increase markedly, and the level of service will correspondingly decrease.

The FIS facilities in Denver are about to be quadrupled in size due to the Denver-London service, increasing from 4,600 square feet to over 19,000 square feet. Even our other FIS flights will be sorely inconvenienced during construction albeit only for another six months or so. This facility has been designed for "one-stop" processing; whether it works or not as designed, only time will tell.

Overall experience in Denver, as light as it is comparatively speaking, strongly suggests that attitudes displayed by the inspectors toward their work and the public are as important in speedy clearance as are the facilities themselves--assuming adequate facilities to begin with.

Possible One Stop Clearance

Possibly--but not unless the inspectors themselves *want* to make it work.

Longer Term Help

A constant (and unacceptable) diminution in the level of services for all passengers requiring clearance.

II. THE FOLLOWING AIRPORTS THINK THAT THE U.S. INTERNATIONAL INSPECTIONAL SERVICES AT THEIR AIRPORT(S) ARE: **ADEQUATE BUT OFFERED THE FOLLOWING COMMENTS:**

BOSTON LOGAN INTERNATIONAL AIRPORT, MASSACHUSETTS (3%)

Customs manpower could be inadequate this summer due to the fact that there may not be any part-time personnel hired to help in Customs.

Customs hall will not hold any more than three jumbo jet arrivals at one time. There could be a lack of luggage carousels.

DALLAS/FORT WORTH INTERNATIONAL AIRPORT, TEXAS (2%)

Adequate only because of the local FIS management approach and techniques - such as optimum use of the citizens' by-pass system. With the pending cuts by the Reagan Administration and the expected increased wide body traffic into existing facilities, problems will arise with both personnel and facility saturation, particularly with inadequate gatespace during peak periods.

Possible One Stop Clearance

POSSIBLE TEST SITE : The Dallas/Fort Worth Airport endorses the GAO "one-stop" inspection system and urges that it also be tested in Dallas/Fort Worth this Summer and Fall. Dallas/Fort Worth Airport offers full cooperation, financial and managerial, in any extension of "one-stop" to Dallas/Fort Worth and would welcome the visit of a Customs/Immigration feasibility team immediately.

ATLANTA HARTSFIELD INTERNATIONAL AIRPORT, GEORGIA

The City of Atlanta and the airlines serving the City made the decision in 1979 to build a first class Federal Inspection Services (FIS) Facility along with its new domestic air terminal then under construction.

The construction of this new international facility required the expenditure of some $14 million and went into service along with the new domestic terminal complex on September 21, 1980.

The new FIS facility was built in response to Atlanta's growing importance as an international gateway. Beginning with Eastern's direct flight between Atlanta and Mexico City in 1971 Atlanta's international air traffic growth has been consistently dramatic.

Atlanta's growing traffic has increased by over 500 per cent in just 4 years.

Because the physical plant was such a dramatic improvement over that which was provided at Hartsfield Atlanta International Airport's old terminal, it was expected that the new facility coupled with the more efficient clearance procedures would result in dramatic improvement in the clearing of international passengers at this facility. Regrettably, this was not the case at first.

Immediately after the opening of the new international terminal complaints by passengers began to increase. The time required for clearance of international passengers at this facility seemed to lengthen rather than decrease. Waiting times in excess of one hour began to be regularly reported and some extreme instances of waits in excess of two hours have been reported.

The personnel of Customs and Immigration here in Atlanta seemingly found it difficult to adjust to the newer clearance process. Customs officers seemed to be uncomfortable in clearing persons from an Immigration standpoint and Immigration personnel are even more uncomfortable in clearing persons that have any sort of questions about their customs declaration. As a result the clearance procedure, although theoretically a much more efficient way to operate, had not produced the greater productivity that was expected from its use.

After these problems were documented, Washington officials of the Federal Inspection Services arranged for a two-month training and orientation program to be conducted for the existing manpower assigned to Atlanta International Airport.

This program has been exceedingly successful and the improvement in average processing time has been dramatic. At current, 70% of all arriving international passengers are normally cleared in 30 minutes or less.

PHILADELPHIA INTERNATIONAL AIRPORT, PENNSYLVANIA

With the installation of the CAPIS system there was a measure of improvement. Additional "One-Step" installations with the proper level of staffing would provide a much improved level of service.

KANSAS CITY INTERNATIONAL AIRPORT, MISSOURI

Although designed to U.S. Customs' requirements, bag claim carousel could be expanded to handle peak arrivals of wide-body aircraft. The vertical bag lift should be redesigned to safely lift baggage. An elevator or other conveyance is needed to aid handicapped.

U.S. Customs and Immigration employees tend to display a surly attitude in dealing with returning U.S. citizens and other travelers. They also sometimes tend to be uncooperative with Operations and Safety personnel which adds difficulty in maintaining airport security.

BANGOR INTERNATIONAL AIRPORT, MAINE

Physical adequacy will be further achieved with the completed renovation project in May, 1981 which includes enlarged facilities for FIS areas, as well as a speedier baggage delivery system. Citizen "By-Pass" for Immigration processing adopted in 1980 reduced significantly delays and congestion during peak traffic periods with respect to Immigration processing. Bangor International is convinced furthermore that with its speedier baggage delivery availability, that the adoption of the "Dual Channel" - "red/green door" system here will greatly enhance the decrease of Customs processing delays and congestions, especially in light of reduced budgetary allowances and manpower freezes imposed upon the FIS systems. This procedure could be currently adopted without additional physical plant changes.

LAS VEGAS McCARRAN INTERNATIONAL AIRPORT, NEVADA

With the completion of a new International Arrivals building at McCarran International, facilities for Federal Inspection Services are adequate. The airport does, however, foresee problems in the future stemming from the existing federal limitations on manpower levels and overtime pay for inspection officials.

PORTLAND INTERNATIONAL AIRPORT, OREGON

Currently Portland International has very few international flights requiring U.S. federal inspections.

EL PASO INTERNATIONAL AIRPORT, TEXAS

Desirable further improvement is programmed and will be implemented when necessary (i.e. two additional stages of expansion). Our proximity to the border allows for a U.S. Customs "labor pool" which serves to our advantage. We enjoy an excellent relationship with local U.S. Customs personnel.

SYRACUSE HANCOCK INTERNATIONAL AIRPORT, NEW YORK

We are quite unusual in that we are a landing rights airport and do have international schedules except at the current time we only have one international scheduled trip per day which requires U.S. inspectional services at our airport. This is being flown by a Canadian commuter with airplanes carrying less than twelve passengers. Consequently, the one inspector assigned to our airport on the day shift is sufficient.

This situation can easily change as several carriers have Canadian authority but are not currently exercising it. The single Customs inspector also handles the Immigration charters. When these occur, it frequently takes extremely long even though additional inspectors are brought to the airport.

In recent months, this type of charter has not been occuring on a very frequent basis. If we should in the near future go back to some of our previous levels of scheduled operations or a greatly increased number of international charters, our U.S. inspectional services would be totally inadequate.

SAN DIEGO INTERNATIONAL AIRPORT, CALIFORNIA

Very limited international operations.

ATTACHMENT C

METROPOLITAN **DADE** COUNTY, FLORIDA

METRO-DADE

AVIATION DEPARTMENT
P.O. BOX 592075 AMF
MIAMI, FLORIDA 33159
(305) 526-2000

February 18, 1982

Vincent Bonaventura
Aviation Planning Division, Room 65E
Port Authority of New York and New Jersey
1 World Trade Center
New York, N.Y. 10048

Dear Vince:

Reference our mutual discussions on DCAD's experiences with our six-month test of the "one-stop" F.I.S. procedures at Miami International Airport. Please find enclosed the detailed comparative analytical data, which we have prepared for each month of the test period, from September 1981 to January 1982. We do not have similar data for August 1980 versus August 1981; because the test did not start until mid-August 1981, and it was still settling-down during the rest of August. We also only had comparative data for the final week of August 1980. We therefore started our comparative measurements from the first week of September 1981.

In summary, both the quantitative data and our professional judgement indicate that the G.A.O. "one-stop" system, as tested at MIA, is definitely better than the old "two-stop" system, and also clearly better than the alternative one-stop system (with baggage) which we tested and rejected at MIA two years ago.

The new G.A.O. one-stop system is also progressively improving as experience is gained by the cross-trained Customs and INS inspectors. We are very keen that the new one-stop system remain in operation, as the standard FIS system at MIA. In fact, we are now planning both procedural and facility changes, to further refine and improve upon the potential of the new one-stop system.

MIAMI INTERNATIONAL AIRPORT

Numerically, the new system (when properly staffed) has succesfully processed almost 17,000 passengers a day, and almost 2,000 passengers an hour, with no significant delays, which the old system(s) could never achieve. In spite of an overall 7% increase in passengers, and an overall decrease in the total numbers of F.I.S. staff available, we have shown a 40% increase in the volume of passengers clearing in 45 minutes or less; a 41% decrease in the volume of passengers clearing in one hour or more; and a 14% decrease in overall clearance times. These are excellent results.

All of these improvements in facilitation have been achieved while still maintaining the same level of enforcement, as measured by the numbers of "seizures", (or similar events) by the Immigration, Customs, Agriculture and Public Health agencies. The new "one-stop" system is, therefore, much more cost-effective than the old "two-stop" system. It is also, in our view, much more cost effective from a facilitation aspect than the earlier one-stop system (with baggage).

The six-month test of the GAO one-stop system at MIA has been a success. Refinements in both staffing, procedures and physical facilities are, however, necessary for the new system to attain its potential optimum level of efficiency. We are now planning these refinements, since we are quite certain that the new GAO one-stop system is the FIS system we need at MIA for the future.

The GAO one-stop system, as tested at MIA, is also clearly in accordance with the policy of the new Administration, to improve on the efficiency and cost-effectiveness of all Federal systems, rather than to add progressively more people. The GAO one-stop system, therefore, should be equally applicable to all major U.S. gateway airports, and we would definitely encourage other U.S. international airports also to use the system.

Warmest personal regards,

Peter Reaveley

Peter Reaveley
Chief, Aviation Development

cc: Donald Burns: Manager Terminal Facilities, JFK
Rodney Wallis: Director, Facilitation, IATA, Montreal

(Continued Over)

MEMORANDUM

107.07-17 A

TO George E. Spofford
Deputy Director

FROM Peter Reaveley
Chief, Aviation Development

DATE February 11, 1982

SUBJECT One-Stop FIS Test
Results Summary
September 1981 Through
January 1982

---

a) Average daily volumes were consistently higher during the test period, than under the previous system.

b) Consistent improvements, averaging 46%, occurred in the percentages of average passengers cleared in 45 minutes or less.

c) Consistent reductions, averaging 41%, occurred in the percentages of average passengers taking one hour or more.

d) Consistent reductions, averaging 14%, occurred in the average clearance times.

e) A basically good system is getting progressively better, as experience is gained. For example, compared with the same months one year earlier:

		AVERAGE CLEARANCE TIMES		
MONTH	AVERAGE DAILY ARRIVALS	IMPROVEMENT IN PASSENGERS TAKING 45 MINS. OR LESS	IMPROVEMENT IN PASSENGERS TAKING MORE THAN 1 HOUR	IMPROVEMENT IN AVERAGE CLEARANCE TIME
Sept. 1981	9,100	45%	27%	9%
Jan. 1982	10,300	56%	100%	18%

Peak-period clearance times show similar trends, with a consistent improvement in the percentages of passengers taking 45 minutes or less; consistent reductions in the percentage of passengers taking more than one hour, and consistent reductions in average clearance time. A basically good system is also getting progressively better during peak-periods, for example:

	PEAK PERIOD (4 P.M. TO 6 P.M.) CLEARANCE TIMES		
MONTH	IMPROVEMENT IN PASSENGERS TAKING 45 MINS. OR LESS	IMPROVEMENT IN PASSENGERS TAKING MORE THAN 1 HOUR	IMPROVEMENT IN PEAK PERIOD PAX CLEARANCE TIME
Sept. 1981	26%	42%	2%
Jan. 1982	44%	44%	6%

Summarized comparative data for each month is shown in Exhibits 1 and 2.

cc: R.H. Judy
Charles Mauch
Robert Hengst
Charles Latinsky
Carl Breckner

EXHIBIT 1

MIAMI INTERNATIONAL AIRPORT
INTERNATIONAL ARRIVALS REQUIRING FEDERAL INSPECTION
COMPARISON OF "ONE-STOP" F.I.S. SYSTEM WITH PREVIOUS SYSTEM
SEPTEMBER 1981 TO JANUARY 1982 INCLUSIVE
AVERAGE CLEARANCE TIMES

			Average Clearance Times		
MONTH	AVERAGE DAILY ARRIVALS	PEAK DAILY ARRIVALS	% 45 MINS OR LESS	% OVER 1 HOUR	AVERAGE IN MINS
Sept. 1980	8,700	11,500	47%	15%	45 Mins
Sept. 1981	9,100	12,700	68%	11%	41 Mins
% Change	+ 5%	+ 10%	+ 45%	+ 27%	+ 9%
Oct. 1980	8,100	9,600	46%	14%	45 Mins
Oct. 1981	8,700	12,400	67%	14%	41 Mins
% Change	+ 8%	+ 29%	+ 46%	N/C	+ 9%
Nov. 1980	8,400	12,500	50%	17%	52 Mins
Nov. 1981	8,900	11,200	70%	12%	40 Mins
% Change	+ 7%	- 10%	+ 40%	+ 29%	+ 23%
Dec. 1980	9,800	15,700	45%	30%	48 Mins
Dec. 1981	10,500	16,600	64%	16%	43 Mins
% Change	+ 7%	+ 6%	+ 42%	+ 47%	+ 10%
Jan. 1981	10,100	16,900	41%	34%	55 Mins.
Jan. 1982	10,300	14,200	64%	17%	45 Mins.
% Change	+ 2%	- 16%	+ 56%	+100%	+ 18%

EXHIBIT 2

MIAMI INTERNATIONAL AIRPORT
INTERNATIONAL ARRIVALS REQUIRING FEDERAL INSPECTION
COMPARISON OF "ONE-STOP" F.I.S. SYSTEM WITH PREVIOUS SYSTEM
SEPTEMBER 1981 TO JANUARY 1982 INCLUSIVE
PEAK-PERIOD CLEARANCE TIMES

MONTH	PASSENGERS ARRIVING BETWEEN 4 P.M. AND 6 P.M. PEAK-PERIOD CLEARANCE TIMES		
	% 45 MINS OR LESS	% OVER 1 HOUR	AVERAGE IN MINS
Sept. 1980	46%	26%	46 Mins.
Sept. 1981	58%	15%	45 Mins.
% Change	+ 26%	+ 42%	+ 2%
Oct. 1980	43%	15%	49 Mins.
Oct. 1981	56%	20%	46 Mins.
% Change	+ 30%	- 33%	+ 6%
Nov. 1980	63%	11%	41 Mins.
Nov. 1981	71%	8%	39 Mins.
% Change	+ 13%	+ 27%	+ 5%
Dec. 1980	49%	23%	50 Mins.
Dec. 1981	63%	17%	47 Mins.
% Change	+ 29%	+ 26%	+ 6%
Jan. 1981	45%	27%	47 Mins.
Jan. 1982	65%	15%	44 Mins.
% Change	+ 44%	+ 44%	+ 6%

AIRPORT OPERATORS COUNCIL INTERNATIONAL

ATTACHMENT D

November 2, 1981

BY HAND

Honorable Sam M. Gibbons
Chairman
Subcommitee on Trade
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Gibbons:

The U.S. Members of the Airport Operators Council International (AOCI) urge you to consider offering an amendment to H.R. 4800, a bill to reinstate certain taxes imposed on aviation, when it is marked up by the full Committee, to authorize payment from the Airport and Airway Trust Fund of part of the direct costs incurred by the Federal Inspection Services (Customs, Immigration, Agriculture) for the inspection at U.S. international airports of those international air passengers who would be paying the $5 international passenger tax under the legislation now before the Committee.

The effect of the amendment would be twofold: to institute a "user tax" mechanism to cover those Federal personnel costs, traditionally financed from the General Fund, of processing international air travellers at U.S. airports, and to devise a cost/revenue relationship in the Aviation Trust Fund that will allow additional FIS inspectors to be made available as traffic levels increase over time.

Hearings before your Subcommittee earlier this year, in connection with the FY'82 Treasury Department Authorization, documented the problems now occurring from coast to coast in our international airport arrival halls: more and more international air travellers must be inspected by a force of FIS inspectors whose numbers are not now able to be increased in some proportion to traffic growth because of constraints in the Federal budgetary process.

The results to date of this equation of more passengers and fewer FIS inspectors are obvious: increasing average passenger processing times at major airports; unacceptable delays and frustration for passengers upon arrival; intense pressures on the FIS inspectors to speed up their processing of long queues of tired passengers; and poor first impressions for foreign tourists of both the airport of arrival and the U.S. Government inspection system.

Primarily through the efforts of your Subcommittee, the FIS agencies are in the midst of a six-month test at Miami and Los Angeles International Airports of a modified passenger inspection system in an effort to achieve speedier passenger processing without loss of enforcement capability.

From the airport proprietor's point of view, while that test process (called ASIST) is an improvement over past practice, its success even when further improved must be coupled

International Headquarters: 1700 K Street, Northwest, Washington, D.C. 20006 Phone: (202) 296-3270 Cable: AOCIHQ

with adequate FIS inspection personnel levels. And, given the current Federal budget pressures, that leads back to the need for a dependable, traffic-related funding source for adequate numbers of Federal inspectors.

More specifically, we propose that the Ways and Means Committee further amend H.R. 4800 to authorize payment from the Airport and Airway Trust Fund for FY'82 and FY'83 of the lesser of (A) fifty per centum of the direct costs to be incurred by the FIS agencies for the inspection of international air passengers; or (B) the revenue generated from forty per centum of the $5 international passenger ticket tax imposed in H.R. 4800.

According to data from the Joint Committee on Taxation staff (October 13, 1981), the increase in H.R. 4800 to $5 from the $3 international passenger ticket tax proposed by the Reagan Administration (H.R. 2930) would generate an additional $34 million in FY'82 (assuming an effective date of January 1, 1982), and $55 million in FY'83.

In contrast, combined estimates of current year FIS agency direct costs for international passenger processing at U.S. airports total about $52 million (Customs $25 million; Immigration $22 million; Agriculture $4.6 million).

Because AOCI also believes that the international visitor should not have to bear the full costs of the FIS system -- since the U.S. citizenry is also protected by the enforcement of agricultural, public health, and drug laws assigned to the FIS inspectors, a 50% user tax/50% public benefit split on cost-sharing would be, in our view, roughly equitable.

We would be willing to provide additional detail and drafting services to you or your staff if this would be helpful to you.

Sincerely,

Don Reilly

J. Donald Reilly
Executive Vice President

Chairman GIBBONS. I agree with you. I hope the committee will see fit to require Customs to do this. You made some very constructive suggestions. Do airport operators have any input in airline scheduling to prevent peaking?

Mr. CORBETT. Yes, Mr. Chairman. On the issue of airline peaking, our views are very close to those of the inspection agencies. Airports don't like to have to construct terminals large enough to handle peaks, the same way the inspection agencies don't like to hire manpower for peaks.

Both we and the inspection agencies would like to rationalize the peaking situation as much as possible. We currently have an effort on with the inspection agencies and the airlines to identify what can be done in the summer of 1982 to improve things.

If the airport arrival halls need to be expanded, the airport is offering to do that. The airlines will look to see if they can't adjust schedules and the inspection agencies hopefully will man for reasonable peak passenger loads.

As Mr. Philion noted, it is very hard to go against the clock and geographic zones. Where there is some scheduling that causes peaking based strictly on carrier preferences, we think pressure should be put on the airlines to try to modify those peaks as much as possible.

Chairman GIBBONS. Has your association taken any affirmative steps to talk to the airlines about this?

Mr. CORBETT. We have, Mr. Chairman. We think the airlines are becoming more sensitive to the issue every day. To the extent the airlines—who are not in a good bottom line position, as you know—have to pay the freight of airport landing fees to construct terminals that are designed for artificial peaks, they have incentives of their own to try to reduce those peaks so the facility costs can be less.

Chairman GIBBONS. One of the major criticisms of passenger inspection systems has been the delays in the delivery of baggage arrivals. What are you doing about that?

Mr. CORBETT. Mr. Chairman, the ASIST process, as it is in place in Miami and Los Angeles, does an awful lot to help the baggage process. If you recall the old system, people would walk into the terminal building and have to pick up their hold baggage before they went through primary inspection.

You had a lot of people waiting for the third piece of baggage which is always the last one coming up on the conveyor belt.

The benefit of this ASIST system is, it lets passengers go through the primary inspection site without their baggage so there is actually more time available for the airlines to get the baggage up to meet the people after they have gone through primary.

I think the experience is good at both Miami and Los Angeles, that the bags are no longer an issue of delay when the ASIST process is in operation.

Chairman GIBBONS. Do operators foresee any way to expedite baggage delivery?

Mr. CORBETT. Beyond the suggestions that the ASIST process brings with it, that is just one of the problems that is worked on a monthly basis to try to get little improvements.

Every major airport has an operations committee where every month representatives of the airlines and the airport sit down and see where the problems were the past month and what can be done to do it.

Baggage claim, baggage delivery time is always on the list. It is an incremental solution at best, Mr. Chairman.

Chairman GIBBONS. I want to commend you all because the baggage delivery is improving, at least at the airports I use. I hate to brag about a local one, but the Tampa airport, you move right from the plane to the baggage area, the baggage is usually there when you get there.

I don't know how they do it as well as they do, but somebody is on the ball there.

I don't know whether it is design or the handlers of the baggage that do it.

Mr. CORBETT. I think it is the combination of a good facility and our member and your constituent George Bean. I think he runs a very efficient operation. He also, as he may have indicated to you in conversations, is interested in having the ASIST process serve Tampa as well.

Chairman GIBBONS. Are there any airports that are overstaffed with the Customs officials or other people in the Federal inspection agencies?

Mr. CORBETT. I don't think the large ones are. I think—and this is really not a short-term solution, but if Congress were to consider a single border management agency sometime down the road, it might not be necessary to have a representative of Customs, Agriculture, and Immigration for the arrival of every flight.

You could have some manpower savings if you were to have initially cross-training and ultimately a single inspection agency.

Chairman GIBBONS. What you say makes so much sense that I doubt we will ever adopt it.

I don't know why you have to be agreed to by three people from three different warring departments from the Government.

Mr. CORBETT. One of the activities our association has right now, Mr. Chairman—because the frustration is just so high at these airports when airport managers get letters from foreign nationals complaining about the 2-hour delays—we have an activity with Dr. Anderson of OMB whose office really coordinates two of the three departments that are involved in this inspection agency issue.

She has agreed to monitor this whole inspection process to see whether it is really a knocking of heads of the departmental secretaries that is needed to rationalize this process.

There are, frankly, an awful lot of turf issues in these inspection agency issues. We would not choose to pick the better or the worst, but there is a lot of turf both at local and at the national level.

Frankly, we are very fearful that, given the testimony of Mr. Von Raab yesterday that some of his hesitation in terms of applying ASIST at different locations has to do with Customs turf concerns rather than passenger facilitation concerns.

We urge you to have an early hearing on ASIST and get a decision on that issue.

Chairman GIBBONS. Somebody suggested to me we give the three agencies 3 years to straighten out the problem and get them all done by one inspector or contract the work out to Disney World because they know how to handle crowds better than anybody we have ever seen.

There may be some truth to that.

Mr. CORBETT. The airport manager who tries to run a businesslike operation sees the different agencies with their different structures for overtime, for shifts, for numbers of supervisors. They tell us with quite a lot of frustration that if this were their function they certainly would not be doing it this way.

Chairman GIBBONS. I appreciate your testimony about the use of a head tax or user fee on arriving passengers. I think it is constructive. I hope we can do something like that in this particular piece of legislation. We are certainly not going to get the inspectors unless we do something to meet the budget deficits. We can't go on with these horrendous deficits.

While this is a small amount of the deficit, it is one of the component parts of it.

Thank you.

Mr. Hance?

Mr. HANCE. You mentioned on page 9 that there are nine additional airports that had 41 percent of the international arriving passengers that wanted the ASIST program. Do you know which nine they are?

Also, are any of the nine having peak problems?

Mr. CORBETT. Yes, Mr. Hance. If you look at the cover page of our attachment B—and I apologize for it being so complex—the locations that have a double asterisk after their percentage of total international passengers, those nine airports with the 41-percent total indicate they are ready, willing and able to have the ASIST process put in their location.

You will note the ASIST process with the single asterisk is already in place at Miami and Los Angeles. They total 22 percent. The New York airport itself totals 22 percent. So, by expanding ASIST to that airport as well as Houston and others, we could service a lot more of the international arriving passengers.

Mr. HANCE. Thank you very much.

Chairman GIBBONS. Thank you very much, sir.

Our next witness is Mr. Thomas H. Boggs, Duty Free Shoppers, Ltd.

Mr. Boggs, come forward.

STATEMENT OF THOMAS H. BOGGS, JR., COUNSEL, DUTY FREE SHOPPERS, LTD.

Mr. BOGGS. Thank you, Mr. Chairman.

I am here this morning on behalf of Duty Free Shoppers, Ltd. Duty Free Shoppers operates a number of duty-free stores at international airports around the world. All of its U.S. operations, I might add, Mr. Chairman, are pursuant to State or local airport authorities and in all cases they pay very substantial fees to those authorities.

In the case of the Honolulu airport, I think you heard yesterday, the Duty Free Shopper pays roughly $35 million a year in concession fees to the airport authority which is 43 percent of that airport's operating budget.

It pays over $6 million a year to the airport in Anchorage, which is 26 percent of that airport's budget.

Parenthetically, Mr. Chairman, these numbers add up to numbers which, if I heard correctly yesterday, would be the equivalent of the salaries of 2,000 inspectors of the Customs Service.

I have a prepared statement which I would ask be inserted in the record, Mr. Chairman.

Chairman GIBBONS. Without objection, it will be inserted.

Mr. BOGGS. I also have a chart, Mr. Chairman, which is not in the statement, which indicates the fees paid by all concessionaires to the 20 major airports in the United States.

Chairman GIBBONS. Do you have copies of that?

Mr. BOGGS. I do, Mr. Chairman. I have only a couple here.

Chairman GIBBONS. Thank you.

Mr. BOGGS. I am sorry to say Tampa only receives about 1 percent of its airport revenues from concession fees, Mr. Chairman, but they are growing.

The reason I am testifying, Mr. Chairman, is that in November 1981 the Customs Service clarified its prior policies governing duty free stores. I would also ask to have inserted a copy of the Customs circular which indicates its policies.

The main change was that prior to 1981 it was deemed to be Customs policy that you could not have duty free sales at locations 3 miles further than the bonded facility from which the sales occurred.

You really could not have a sale taking place at a location other than an airport with one exception and that has been an exception in the law for some time for the Port of Honolulu.

In November, Customs changed that to clarify that it had no jurisdiction over where the sales of duty free goods occur. The result is that one operator has applied and received Customs bonds in Anchorage and Los Angeles and is presently applying for a bond in Honolulu. That operator has bonded warehouses in those facilities without airport authority, without paying concession fees, and many of the sales are not made anywhere near those airports.

The sales are made in either downtown Los Angeles, downtown Anchorage, or in one case in downtown Paris.

What is happening, which is a practice we think should be eliminated very quickly, is the concessionaire will sell a good in Paris, the customer leaves Paris, lands in Anchorage on his way to Tokyo. When the plane lands at Anchorage, the goods are loaded in the belly of the plane from a duty free warehouse under Customs supervision in Anchorage, Alaska, and delivered to the passenger when he arrives in Tokyo.

What you have is the use of Customs personnel, supervising a sale which occurs in either France or Tokyo, doesn't occur in the United States, using basic personnel time which I think you have heard the last 2 days is a very scarce commodity at this time, facilitating a sale from France.

This practice is the one that offends us the most, Mr. Chairman. It is our commercial concern.

I think the committee's concern ought to be that you should not allow a bonded duty free type sale to occur to an international passenger unless the Customs Department is assured that that commodity will not enter U.S. commerce, which has been one of its standards for years, and unless it is facilitating a sale from the United States.

What we would hope the committee would do in reviewing the Customs budget and authorization request is prevent the use of any Customs personnel to facilitate sales that are made and delivered from bonded warehouses if the seller does not have airport approval and if the retail duty free shop type sale is not originated in the United States.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF THOMAS H. BOGGS, JR., ESQ., ON BEHALF OF DUTY FREE SHOPPERS, LTD.

SUMMARY

State-authorized duty-free shop consessions generate substantial revenues for state airport authorities.

Duty-free shops operate pursuant to Customs Service regulations and policies and must be supervised by Customs personnel.

Recent changes in the Customs Service's duty-free shops policy would facilitate the wholly-foreign tax-free sale of duty-free goods stored in United States Customs bonded warehouses by non-consessionaires. Such sales would produce no revenues for the federal government, would reduce the revenues of state governments and would steal sales away from authorized consessionaires.

Customs will have to allocate personnel to supervise such operations at a time when it is understaffed and its manpower is already stretched thin.

Customs should supervise only those duty-free shops that have been granted consessions to operate by airport authorities.

STATEMENT

Mr. Chairman and Distinguished Members of the Subcommittee, my name is Thomas H. Boggs, Jr. I am testifying today on behalf of Duty Free Shoppers Limited. Duty Free Shoppers operates duty-free sales stores at a number of international airports around the country.

Duty Free Shoppers operates all of these stores pursuant to concessions granted to it by state and local government authorities. In return, Duty Free Shoppers pays a portion of the revenue from its stores to these state airport authorities in the form of concession fees. Those fees are substantial. For example, in 1981, Duty Free Shoppers paid more than $35 million in concession fees to the State of Hawaii. Those fees alone accounted for 43 percent of the gross operating revenue of Honolulu International Airport and the state airport system.

As the members of this Subcommittee know, duty free shops were established, and their operations are regulated, by the United States Customs Service. Duty-free shops are Customs bonded warehouses. By law, a Customs official must supervise the entry and withdrawal of goods into and from each bonded warehouse, including each duty-free shop. Traditionally, Customs has provided personnel to supervise only duty-free shops that have been granted concessions to operate by appropriate state airport officials. The salaries of these Customs personnel are reimbursed by the duty free shop operators.

Mr. Chairman, recent changes in Customs Service policy have created potentially serious problems for authorized duty-free concessionaires. Those changes would allow persons lacking authorized concessions to take order for duty-free goods through catalogs or at non-bonded "dummy" stores located both in this country and abroad. Those persons then arrange for the duty-free goods to be delivered from A Customs bonded warehouse in the United States to the foreign passengers' plane, thereby bypassing the authorized concessionaire. Delivery to the passenger is accomplished in a foreign country. Unlike authorized concessionaires, operators of such catalog sales operations and "dummy" stores pay no concession fees to the states.

Duty Free Shoppers has submitted a memorandum to the Customs Service questioning the legality of these new arrangements under Customs law and policy A copy of that memorandum is attached to this statement.

For these "dummy" transactions to occur, the Customs Service must supervise the entry, withdrawal, storage and manipulation of the duty-free merchandise at a U.S. bonded warehouse located at or near the airport. What this means is that Customs must allocate some of its already scarce manpower resources to supervise operations that produce no revenue to the federal government, deprive state authorities of concession fees and compete unfairly against authorized concessionaires.

In testimony before this Subcommittee one year ago today on Customs' fiscal year 1982 budget authorization, Customs Service officials reported that more than 900 authorized Customs positions were unfilled. You were told that shortages of inspector personnel in the field were causing long delays in the processing of passengers arriving at international airports, requiring greatly increased overtime. They stated that these manpower shortages were forcing Customs to reduce its physical supervision over bonded warehouses, notwithstanding that a great many warehouses have been wracked with problems of disappearing inventories of in-bond merchandise in the last few years.

We submit that at a time when Customs is stretched thin, it is inappropriate to divert Customs field personnel from their traditional inspection and enforcement activities in order to assist the operations of new "dummy" stores. Such a misallocation of resources cannot be justified, especially in light of the negative effect that these stores have upon state and local revenues.

We submit that the sensible approach to duty-free sales is to authorize Customs to provide personnel to supervise only concessionaires licensed by appropriate state airport officials. The Customs Serrvice is already familiar with these concessionaires' operations. Thus, expenditure of Customs resources with respect to duty-free sales can be held to a minimum. Moreover, there is no reason for Customs to provide manpower to assist catalog and "dummy" operations whose sales originate in one foreign country and conclude in another. Under this scenario, the only nexus to the United States is the movement of goods—under Customs Service supervision—from the warehouse to the plane during a stopover in an American city.

Mr. Chairman, we intend to submit further testimony to this Subcommittee at the forthcoming hearings on the substance of the fiscal year 1983 Customs authorization. This morning, we wish to recommend to this Subcommittee that you expressly prohibit the Customs Service from using any of its authorized funds, or any of the funds in its revolving fund, to supervise or assist in any way the sale or delivery of duty-free goods by anyone other than state-authorized duty-free shop concessionaires.

Thank you very much.

WASHINGTON, D.C., *February 17, 1982.*

MEMORANDUM

For: Commissioner of Customs.

Re Extension of duty-free shops procedures to cover sales not consummated within U.S. Customs territory.

This memorandum is submitted in connection with current and proposed actions by Customs Officers to extend duty-free bonded warehouse privileges to an affiliate of a multi-national foreign corporation which, if fully implemented, may destroy many traditional duty-free operations currently in place. The nature of the non-sale delivery system described below is of immediate concern to the U.S. industry involved.

It is recognized, of course, that jurisdiction over duty-free shops has, in the past, been left within the final authority of local Customs Officials. However, the questions relative to the international sales hereunder review which have been raised by Intercontinental Fashions Ltd. (LIZ) at Headquarters (or higher) levels, are of such significance that a uniform negative ruling by Headquarters is warranted.

The duty-free contract of sale and delivery system proposed for Honolulu and the plans approved for Anchorage and the Los Angeles International Airports (and any other U.S. airports) submitted to U.S. Customs by LIZ must be reconsidered and rejected. Such transactions are only steps precedent to a foreign sale and, hence, not duty-free sales under U.S. law and practice.

DUTY-FREE CONTRACTS OF SALES VIOLATE NATIONAL POLICY, CIRCULAR NO. 3200-65, NOVEMBER 13, 1981

The 1981 Customs circular captioned above reiterates longstanding policy of U.S. Customs vis-a-vis duty-free shops. The purpose of this circular and prior policy statements (CIE 9/78) has been to maintain proper controls over exportation of merchandise, to reduce demands on Customs resources, and to reduce the likelihood of inequitable competition of duty-free goods with domestic duty-paid goods. The stated policy will be violated by implementation of approval of LIZ proposals. The manifest intent of the original directive allowing establishment of duty-free shops was ". . . to permit a net increase of international sales made in the United States, not to displace sales of domestic and duty-paid merchandise with sales of duty-free merchandise." The LIZ procedures result in sales outside the U.S.A. which displace sales of duty-free merchandise in the United States.

A "sale" is a contract between two parties, seller and buyer, by which the former, in consideration of payment or a promise of payment of a certain price in money, transfers to the latter the title and the possession of property (Black's Law Dictionary, 4th Ed., Revised 1968). The LIZ proposal opens the door to non-sale deliveries with absolutely no benefit to the United States, the local airport authority, local city or state, or any other private or public entity in the United States, other than LIZ. For example, a passenger traveling to the U.S.A. from France (actual location of LIZ) may review a catalog or brochure prior to boarding the departing aircraft and/or while traveling across international territory. Then, he or she can place an order with LIZ which could be consolidated by LIZ at the last port in the U.S.A., perhaps Los Angeles, San Francisco, Anchorage, or Honolulu. Only LIZ, not the prospective purchaser, would handle all documentation for the merchandise, and then merely deliver to the purchaser upon arrival at a foreign destination. Under this scheme, consummation of the sale, as a matter of law, could not take place until delivery of the merchandise to the customer in another country. Therefore, there is no duty-free sale in the U.S.A., and appropriate entry procedures should be undertaken upon unloading of the consolidated "shipment."

Such a sale of merchandise is strictly international and does not permit, in fact disallows, any net increase of "international sales made in the United States. . ." The only thing LIZ offers America is a burden (Customs supervision and airport procedures) with absolutely no benefit to the local instrumentalities or the U.S.A.

In fact, once this system is in place, catalogs could be delivered to passengers in foreign countries prior to embarkation, along with their tickets for placement of contracts of sale at point of origin, payment in controlled or foreign currency, and pick-up at the ultimate destination, based on paperwork and withdrawals only, from warehouses in the U.S.A. Eventually, LIZ would "skip" the U.S.A. altogether thus undermining policy and depriving others of any opportunity for a sale. The proposed delivery system deprives local authorities and airlines of any financial benefit, but mandates supervision and enforcement. If permitted, U.S. Customs could be a pawn in abetting (1) unfair competition; (2) local tax avoidance; and (3) mis-use of Customs personnel in private international transactions.

Duty-free shops located in airports throughout the United States benefit airlines, airport operators, and local communities. The normal duty-free operation includes substantial payrolls for employees to handle and warehouse goods, required clerical personnel for processing Customs documents, very substantial franchise payments to airport authorities which in turn support facilities and help keep down landing and departure fees of U.S. and other carriers, and payment of costs to local truckers, import agents, and other businessmen, in connection with the inventory that is "handled" through conventional duty-free operations for sale (delivery) to individuals prior to physical departure from the United States. The LIZ procedure presently before Headquarters avoids all of these costs and benefits; therefore, it constitutes a highly sophisticated form of unfair competition with other U.S. duty-free operations.

LIZ PROCEDURES RESULTS IN NO SALE WITHIN U.S.A.

Delivery is an absolute requirement of any retail duty-free, completed sale. Reference should be made to the Uniform Commercial Code (Code), because it codifies much of the common law on "sales" and clearly demonstrates that current law follows the historic definition.

The Code defines a "sale" as follows (Article 2, Section 106(1)—§ 2-106(1), for short):

"A 'sale' consists in passing of title from the seller to the buyer for a price."

Under the Code, § 2-401, the following constitutes the passing of title:

(1) Title to goods cannot pass under a contract for sale prior to their identification to the contract (Section 2-501), and unless otherwise explicitly agreed the buyer acquires by their identification a special property as limited by this Act.* * *

(2) Unless otherwise explicitly agreed, title passes to the buyer at the time and place at which the seller completes his performance with reference to the physical delivery of the goods, despite any reservation of a security interest and even though a document of title is to be delivered at a different time or place; and in particular and despite any reservation of a security interest by a bill of lading

(a) if the contract requires or authorizes the seller to send the goods to the buyer but does not require him to deliver them at destination, title passes to the buyer at the time and place of shipment; but

(b) if the contract requires delivery at destination, title passes on tender there. (NOTE.—If out of country, consummation of the international transaction is time of actual "sale.")

The necessity for delivery to complete a sale is so ingrained in our law, that it has been enshrined in the Code in an unambiguous manner. Furthermore, it forms one of the principal general obligations underlying the construction of any "contract of sale", as distinguished from the "sale" itself. Thus, the Code, § 2-301, states:

"§ 2-301. General Obligations of Parties

"*The obligation of the seller is to transfer and deliver* and that of the buyer is to accept and pay in accordance with the contract" (emphasis supplied).

The reason delivery forms such an integral part of any sale is that it constitutes the last step in the seller's performance on the executory contract of sale, and, both at common law and under the Code, gives certain rights to the buyer which he would be unlikely to waive knowingly in any situation.

The most important of these rights is the Buyer's Right to Inspection of the Goods, codified at § 2-513(1):

"* * * where goods are tendered or delivered or identified to the contract for sale, the buyer has a right before payment or acceptance to inspect them at any reasonable place and time and in any reasonable manner. When the seller is required or authorized to send the goods to the buyer, the inspection may be after their arrival."

The reason for this section, and for this traditional right is clear: The buyer has a right to reject the merchandise as not conforming to the contract (§ 2-601, Buyer's Rights on Improper Delivery), or as not consisting of the merchandise identified in the contract of sale. In the case of non-merchant buyers (retail), the buyer may thereupon walk away from the goods, leaving them in the hands of the seller or of his agent the carrier, simply by giving notice of rejection. At that point, the "contract of sale" is terminated or cancelled and the seller is left with his remedies, if any. The buyer may stop payment for the merchandise immediately.

Accordingly, no duty-free sale can be complete without delivery of the merchandise to the buyer. Until such time, the rights of the parties are not fixed, and the transaction has not been completed. In other words, it is possible to execute a "contract of sale" at any time, but the "sale" is not fulfilled and the rights of the parties are not fixed, until the merchandise has been delivered.

THE COMMISSIONER SHOULD REVERSE DECISIONS IN LOS ANGELES, ANCHORAGE, AND ELSEWHERE AS VIOLATING AN ORDER TO MAINTAIN NONDISCRIMINATORY U.S.A. NATIONAL POLICY

The LIZ proposal may give a naive observer the impression that the program is benign, even desirable, because, on its face, one could reach the conclusion that duty-free merchandise will always be withdrawn from stock in the United States (local bonded warehouses) and packed in luggage or containers specifically designed for such goods, therefore, "getting the job done" with a minimal "cost" to Customs. In those specific exemplars covered by the proposal of June 11, 1981, one could erroneously conclude that certain procedural benefits would redound to the local community and U.S. Customs even though airport franchise fees and other costs would be avoided. However, it may take an army of U.S. Customs officials to police other types of proposed sales under the scheme, and the immediate result is unfair competition under Customs supervision.

The best that can be said for the LIZ-type operation is that it may bring about a "contract of sale" which would then be consummated only upon arrival of the international flight in the foreign country. Accordingly, as we have carefully outlined above, all other duty-free operations being conducted under rules of U.S. law and with stated policy of the U.S. Customs, are placed in a non-competitive position, because of cost differentials in operations. This, in turn, would bring about a decline in dollar sales of existing duty-free operations, eliminate or reduce franchise payments based on sales to local authorities, and avoid any other normal commercial expenditures within the United States. Such sales, by definition, would not be duty-free sales but would be international transactions consummated at destination, with U.S. Customs as the conduit for manipulation. Further, under current federal economic policy, any consideration of this type of delivery system should be subject always to prior approval by local authorities, along with evidence of payments of full franchise fees and local taxes. This posture will assure continuation of national U.S. Customs policy to permit net increases of international sales made in the United States without displacement of duty-free and duty-paid sales under normal business procedures.

The legality and finality of duty-free retail sales are not just legal theory. If any incarnations of Customs Circulars WAR-6 are to have meaning, they must be based on law. Since the consistent policy summarized in Circular WAR-6-C:1:C of 11/13/81 (P.P.M. Manual Transmittal No. 3200-65), continues, consummation of sales, not mere executory contracts of sale, and the Customs supervision thereof, must involve goods within a three-mile limitation (3-2-C), goods must be exported by an individual customer departing from the U.S.A., and they must be delivered to the individual customer at the exit point, not at the destination of the departing passenger (6 and WAR-6-0:J:C 9/3/76). The LIZ scheme fails on all points.

Since this is a retail duty-free sale, there will, ordinarily, at least in the United States, be no bargaining over the price, which is fixed at the time the customer begins his inspection. Thus, the essence of the contract, from that point of view, is not the price, which is not bargained for, but the specific tax-free merchandise which the consumer has chosen, and about which he or she may request and receive specific assurances. Having been satisfied as to the merchandise, the consumer pays for it, and receives both a sales receipt and the actual merchandise. In legal terms, the merchandise is identified to the contract and is delivered at the place of business of the merchandise, which, in the case of normal duty-free sales, is a continuing transaction to the ramp of a departing international passenger. Since the payment of the price is a concomitant of delivery, the sale is complete, both parties having fulfilled their obligations as stated by the Code. The transaction may be reopened by claims against warranties, express or implied, and so forth, but it is regarded as a completed sale, and any further activity by the buyer or the seller will result from, or arise out of, a completed sales transaction.

Additionally, in standard duty-free retail sales transactions, any mistake in drawdown and packaging at the warehouse, is subject to a check by the duty-free shop employee charged with delivering the product to the purchaser as he or she boards the plane, and another check by the international passenger (purchaser) of his or her sales slip and contents of the package itself. With Customs personnel and the customer present at the departure ramp throughout the final stage of delivery, private, official and commercial checking takes place. Corrections, if needed, are made on the spot without the movement of government or private personnel to any other place in the airport. In case of error under the scheme proposed by LIZ, the employee placing the individual packages in a consolidated state in luggage or a container in the luggage area, can check only by reopening the luggage or container under Customs supervision, and rechecking documents with the individual packages, without benefit of customer comment. Since no sale has taken place (no delivery to the transit passenger), the prospective purchaser cannot check to see that ordered items were placed on board the aircraft until actual receipt of the duty-free package at destination, perhaps thousands of miles from U.S. Customs supervision. Then, too, in the case of unauthorized transactions through prepacked luggage check-in, or failure of warehouse documents to match up with sales slips and physical delivery, Customs supervision would be a farce.

CONCLUSION

Duty-free sales through airports are not "services" as that term is used by USTR and GATT, and cannot be viewed properly without regard to current national economic policy, common sense, fairness, and longstanding application of the law and regulations applicable to bonded warehouses.

(1) Current efforts by certain multi-national commercial interests to classify destination warehousing and delivery schemes within the ambit of non-tariff barriers to services under review by the U.S. Trade Representative and officials of GATT, are downright misleading. Barriers to destination duty-free warehousing and delivery exist for a very good reason: they constitute the only protection for individual country duty-free privileges. Since the Havana Charter in 1947, duty-free shops have

been excluded from GATT negotiations and are not the kinds of "services'" presently under scrutiny in Geneva. WAR-6, 1/9/79, 9(b) is longstanding and unambiguous: ". . . Delivery of bonded merchandise to the purchaser at the border exit point and its exportation must be supervised by a Customs officers." The LIZ proposal to set-up a delivery point in Tokyo to (1) save transportation expenses and (2) to make sales more convenient for international passengers, makes sense to a multinational corporation intent on rationalizing internal costs and control of cutomer shopping options during international travel, but these procedures are not compatible with national laws governing duty-free transactions at retail. A quick, unstudied decision by the Customs Service in this case would distort policy and be contrary to U.S. economic interests.

Approval of non-franchised, untaxed bonded status for LIZ-type delivery and assistance to LIZ in obtaining destination delivery privileges would constitute arbitrary and capricious final actions.

(2) The LIZ program, as set forth above, will avoid payment of local fees and charges. In the past, before this Administration, U.S. Customs refused to recognize local prerogatives. Such revenue producing matters as State and Municipal income and use taxes were labeled "irrelevant" to Customs approval of bonded warehouses. The airport franchise fee was not considered relevant, even though this item is critical to any duty-free operation under normal circumstances. Now, National Economic Policy seeks to enhance local function and fiscal policy. Therefore, the LIZ mechanism to avoid taxes and costs in the local community will have the immediate and longstanding effect of reducing local revenues.

(3) Although legal arguments can be made to support the LIZ tax and ordinary overhead avoidance system, common sense dictates that it must be rejected. In the end, when it spreads to many other U.S. airports, higher-cost, playing-by-the-rules competition will be destroyed or will join the move to offshore sales. The proposal raises more than an "authorized personnel" question, it is a novel, multi-national first step to embarkation sales contracts and destination sales. Eventually, through-passengers placing orders at, for example, LIZ Paris or LIZ Tokyo, will contribute nothing to the U.S. economy because destination sales, paid for in the currency of the country of embarkation, will replace normal U.S. duty-free sales.

(4) Mere enforcement of existing rules and regulations will correct the apparent error in approving a non-sale, duty-free operation. While bonded privileges may not be withdrawn without specific cause, reversal of a procedural approval for LIZ will not in any way negatively affect its right as a U.S. corporate affiliate of a foreign multi-national corporation, to its bond and its pursuit of local franchises, etc., for a proper duty-free shops.

Accordingly, it is requested that the Headquarters take jurisdiction in the matter and reverse approvals of the LIZ non-sale procedures and give national recognition and continuation of longstanding practices outlined in Circular 3200–65, promulgated on November 31, 1981.

Respectfully submitted.

DUTY-FREE SHOPPERS, LTD.
PATTON, BOGGS, & BLOW.
BARNES, RICHARDSON & COLBURN.

TABLE 2.4.—DUTY-FREE SHOPS AS A SOURCE OF REVENUE FOR 20 U.S. AIRPORTS, 1980

[Dollars in thousands]

Airport/city	Duty-free concession fees paid to airport (1)	Airport gross revenues (2)	Duty-free concession fees as percent of gross revenues (3)
1. JFK/New York, N.Y	NA	NA	NA
2. Miami, Fla	$2,000	$74,933	2.7
3. Los Angeles, Calif	3,200	78,009	4.1
4. Honolulu, Hawaii	30,393	70,910	42.9
5. O'Hare/Chicago, Ill. [1]	None	NA	0
6. San Francisco, Calif. [2]	1,856	80,434	2.3
7. Boston, Mass	498	NA	NA
8. Anchorage, Alaska [2]	5,593	21,281	26.3
9. Houston,Tex	666	30,284	2.2
10. Sea-Tac/Seattle, Wash	760	42,686	2.0
11. Atlanta, Ga. [3]	158	48,949	.3
12. Dallas-Ft. Worth, Tex.	125	87,421	.1

TABLE 2.4.—DUTY-FREE SHOPS AS A SOURCE OF REVENUE FOR 20 U.S. AIRPORTS, 1980—Continued

[Dollars in thousands]

Airport/city	Duty-free concession fees paid to airport (1)	Airport gross revenues (2)	Duty-free concession fees as percent of gross revenues (3)
13. Philadelphia, Pa.[2]	$90	$45,446	0.2
14. Fort Lauderdale, Fla.[1]	None	NA	0
15. Dulles/Washington, D.C	119	14,324	.8
16. Newark, N.J	NA	NA	NA
17. Tampa, Fla	194	19,829	1.0
18. Metropolitan/Detroit, Mich	55	37,893	.1
19. New Orleans, La	58	12,751	.5
20. Las Vegas, Nev.[1]	None	NA	0

[1] O'Hare, Fort Lauderdale, and Las Vegas Airports did not have duty-free shops during 1980.
[2] Fiscal year ending June 30, 1981.
[3] Fiscal year ending Sept. 30, 1981.
NA: Not available.

Chairman GIBBONS. Who pays the salary of these people who inspect the duty-free stores?

Mr. BOGGS. The duty-free stores operator reimburses Customs for all costs incurred including, I might add, Mr. Chairman, overtime on Sundays.

Chairman GIBBONS. Would the same be true under the proposal—under the type of operation that you oppose?

Mr. BOGGS. Yes, the same is true, I might add, of the airport warehouses in Anchorage we are complaining about.

Chairman GIBBONS. The question is not one of revenue; the question is one of competition?

Mr. BOGGS. The question is not one of revenue to the U.S. Customs Service.

The question is one of revenues to the airport authorities. For example, I revert back to Honolulu. If you didn't have the concession fees, that is an equivalency of about $20 per passenger going in and out of the Honolulu Airport.

The way the airport generally makes up lack of revenues is by landing fees. So, in the absence of the concession fees, there would be an increase in landing fees and an increase in ticket prices of over $20 per passenger.

Chairman GIBBONS. Can't the Honolulu Airport Authority control that problem itself?

Mr. BOGGS. That has traditionally been the case. Traditionally Customs has not approved a bonded warehouse duty-free operation unless the local airport or bridge authority has first approved the operation.

In Los Angeles and Anchorage for the first time to our knowledge, Customs has approved bonded warehouses for these types of operations without the prior approval of the airport authorities.

Chairman GIBBONS. I must say this is the first time I ever heard of all this argument. I didn't know it was going on. I don't know what position to take, but couldn't the Honolulu Airport Authority control this itself by just refusing to allow this off-airport operator—either charging that operator for the use of the facilities or something?

I don't know. I hate to just get the Federal Government involved in everything.

Mr. BOGGS. The Honolulu Airport Authority—I agree. I think it ought to be up to the Honolulu Airport Authority to control what goes in and out of its airport. You required assurance that when a passenger buys duty free items at the airport or somewhere else, that he doesn't get possession of that item until he exits the United States, so that Customs is sure that that item——

Chairman GIBBONS. I understand the reason for that.

Mr. BOGGS. That basically means when you leave the Miami Airport or the Tampa Airport going to Mexico, you receive your duty free purchase right before you get on the aircraft, in the presence, frankly, of a Customs inspector. The airport authority has control. It can prevent any other concessionnaire from doing that, but it can't prevent, if Customs permits—the duty-free operator delivering the duty-free goods from a bonded warehouse to the baggage terminal of Air Florida, as it departs the Florida airport. Airport authorities are not sure they can prohibit a passenger from receiving baggage to be placed on the baggage conveyor to go out to the belly of the plane and charge any kind of fee or prohibit any person from doing that.

Traditionally customs has prevented this practice because once that baggage goes on the conveyor, it can go a lot of places before it gets into the belly of that airplane.

There really is no assurance that that baggage is not going to reenter the domestic commerce of the United States.

In the case of Los Angeles, Customs is allowing that procedure to take place for the first time.

Chairman GIBBONS. Any questions?

Thank you very much.

Mr. BOGGS. Thank you, Mr. Chairman.

Chairman GIBBONS. The next group of witnesses are from the National Treasury Employees Union.

STATEMENT OF VINCENT L. CONNERY, NATIONAL PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION, ACCOMPANIED BY JERRY D. KLEPNER, DIRECTOR OF LEGISLATION, AND PAUL SUPLIZIO, LEGISLATIVE CONSULTANT

Mr. CONNERY. Mr. Chairman, I am Vincent L. Connery, president of the National Treasury Employees Union.

I am accompanied by Jerry Klepner, our union's director of legislation, and on my right, by Paul Suplizio.

We are the exclusive representative of over 120,000 Federal workers, including all of the employees of the U.S. Customs Service.

We have prepared a detailed statement on the fiscal year 1983 authorization of appropriations for the Customs Service and we urge the subcommittee to devote attention to this information and ask that it be included in the record of these hearings.

Chairman GIBBONS. It will be without objection.

Mr. CONNERY. As the subcommittee is undoubtedly aware, Customs is responsible for enforcing a myriad of laws and regulations that affect every segment of our society. So much of our economy is dependent upon effective enforcement of the customs laws that any reduction in these efforts would have a widespread and deeply felt impact on countless American citizens and businesses throughout our Nation.

We are particularly aware of the intense pressure on Congress to reduce Federal expenditures. Nevertheless, we believe it essential that the subcommittee keep three salient facts in mind:

First, Customs is a key revenue-producing agency of the Federal Government and that every dollar spent for enforcement of our customs laws returns approximately $18 to the U.S. Treasury.

Second, Customs has an essentially uncontrollable workload in that no matter what actions are taken with respect to the budget, international trade and travel continue to grow and the Customs Service must cope with this rising workload.

Even assuming the productivity of the Customs Service's work force increases to offset part of this rise, there is no reason to expect that productivity improvements alone can compensate for an annual 7- to 12-percent growth in workload.

Third, we must recognize that while it may be tempting to make immediate budgetary savings at the expense of the Customs Service, many of these short-term savings quickly bounce back as long-term costs to American industry, to State or local governments, or to other parts of the Federal budget.

In determining appropriations for the Customs Service, Congress must remember that there is invariably a social cost of reduced enforcement, especially in a reduction in Customs efforts to stem the tide of drugs being smuggled into our country.

We were particularly dismayed to see the fiscal year 1983 budget request for Customs set forth by the Reagan administration. Apparently the President has fallen into the same shortsighted trap as his predecessors in believing that it is wise to save money by cutting the funding for such an important revenue-producing law enforcement agency.

Even though Congress on two separate occasions last year wisely refused to accept the President's proposed cuts in Customs, this year the President is proposing a budget which calls for a cut of 1,338 staff years below the level of the fiscal year 1982 continuing resolution. This would necessitate the loss of 878 inspectors, 100 import specialists, and 54 Customs patrol officers.

In light of the importance of the Customs mission to the Nation and the severe workload now facing the service, such a cutback would be devastating.

In our full statement, we submit an alternate budget on the Customs Service. Our recommendations are based on a realistic assessment of the needs of the U.S. Customs Service.

We would like to summarize these recommendations.

First, we recommend an additional 300 inspectors and $11,553,000 above the level of the fiscal year 1982 continuing resolution.

This recommendation entails restoration of the 972 positions and $37,432,000 cut by the administration. Consequently, the total additional appropriation in the area of inspection and control would be $48,985,000 for fiscal year 1983.

Second, we recommend an additional 200 import specialists and $8,122,000 above the level of the continuing resolution. This entails restoration of 268 positions and $10,883,000 cut by the administration.

Consequently, the total additional funding for fiscal year 1983 would be $19,005,000.

Third, we recommend restoration of the 70 positions cut by the administration from the Customs tactical interdiction functions and an additional 30 more staff years to meet the enormous problem that exists in this area.

This will prevent a RIF of 100 Customs patrol officers, the add-on for this restoration being $3,836,000.

In sum, we urge a restoration of administration cuts totaling 1,310 positions and $51,011,000.

Going further, we would add 530 positions and $20,815,000 for essential personnel. Thus, our total recommended addition to the administration's budget request for fiscal year 1983 is 1,840 positions and $71,826,000.

Mr. Chairman, besides budgetary problems, the Customs mission is suffering because of certain policy decisions made by service management.

For example, Customs recently notified us of its decision to reduce from 69 to approximately 53 the number of entry processing locations in the country where import specialists are assigned.

This plan, known as centralization of appraisement, has presently been delegated to the regional commissioners of Customs for implementation.

Many Members of Congress are fully aware of this proposal because of the outcry it has produced from the importing community and municipal officials nationwide.

Amazingly, Customs has provided no rationale for this plan, no cost/benefit analysis of the supposed advantages, not even the economic impact statements on the affected communities which are required by executive order.

We expect that the subcommittee will be seeking the answers to these and other questions.

In view of the increased growth of the Nation's foreign trade, the expanding number of foreign trade zones, the growing number of cities seeking port of entry status, and the obvious advantages of continuous import specialist contact with the importing community, one would have thought that Customs management would have favored expanding the number of entry processing locations. We have informed the Customs Service and many Members of Congress of our vigorous opposition to the centralization of appraisement concept based largely upon the following reasons.

It would deprive the business community of an extremely valuable service and cost many firms thousands of dollars; it would hinder the development of foreign trade in many municipalities and lead to lost revenue and business; it would break down the intimate contact with the importing community that is the source of the import specialists' expertise; and it would lead to more errors in entry documents, more rejected entries, more contested classifications and evaluations, and larger entry backlogs.

It would break down the inspector import specialist team that is vital to the smooth operation of our ports of entry and it would ultimately cost the Government billions in lost revenues from entry errors.

We strongly urge the subcommittee to bar the use of appropriated funds for implementation of this plan. We would go further.

We recommend that the subcommittee report out an authorization bill with a clear statement of policy concerning the desirability of Customs stationing import specialists in localities having significant numbers of importers, including mandatory assignment of a specific number of import specialists in proportion to the number of importers.

Mr. Chairman, before closing, I would like to touch upon the issue of Customs inspectors' overtime. This topic has generated a great deal of controversy over the years. Last year the administration authored a legislative proposal to change the overtime rate of pay for inspectors.

We urge the subcommittee not to be unduly concerned with the misleading statements of some opponents of the present system, but to consider all the facts surrounding this issue.

The overtime earnings of Customs inspectors are a reflection of the enormous demands made upon these men and women to process a steadily growing workload.

Given its limited work force, the Customs Service has, since 1975, been using overtime funds as a resource to meet the increasing demand for clearance of passengers and cargo.

The overtime earnings of inspectors are just compensation for long and irregular hours and physically demanding and hazardous duties. Customs inspectors must be available at all hours to assist the traveling and importing public. Overtime assignments are a public service required of our inspectors, a duty they cannot refuse. An inspector with overtime earnings of $15,000 to $20,000 a year works, on the average, 62 hours a week, 52 weeks a year, for the convenience of the public and to insure enforcement of our Customs laws.

It is unfair, when some Members of Congress seem to forget that inspectors are parents, wives, mothers, and are entitled to lives of their own.

It is unfair when Customs inspectors are the only group of Federal employees who are singled out for an arbitrary cap on their earnings.

We believe the time has come for the Congress to demonstrate its sensitivity to the problems encountered by inspectors by removing the overtime cap on their earnings.

We believe that this should be done for the following reasons:

The overtime cap is interfering with accomplishment of the Customs mission and inspectors who exceed the cap are not available for overtime assignments, and some services are not being provided on overtime even though the services are reimbursable.

The cap is preventing the proper allocation of resources among ports experiencing different rates of growth. Instead of workload being processed by local inspectors on overtime, inspectors have been transferred, flown in from other ports at Government expense to do the job.

The administration of the overtime cap is costing Customs over $800,000 annually. Customs has itself called for removal of the cap. The cap is severely affecting employee morale. It has required the equalization of overtime earnings among employees, requiring lower graded workers to work more overtime, and prohibiting employees who would be willing to work longer hours, from doing so.

We are absolutely convinced that the frequent callbacks, irregular hours, and hazardous and demanding nature of an inspector's duties fully justify the present rates of overtime pay.

Moreover, these rates are not out of line with the prevailing private sector practice which establishes double time for callback and night work and where the prevailing practice if triple time for Sunday overtime and double time and a half for holiday work. This information is based upon a survey of private sector premium pay conducted for the Office of Personnel Management's premium pay task force.

We urge the subcommittee to reject the call for a change in the rates of overtime compensation paid to inspectors. It would not only be grossly unfair to the inspectors, but would seriously reduce the incentive to continue to work long hours at a time when the Service is stretched thin and lacks adequate staff.

Mr. Chairman, we sincerely appreciate the opportunity to appear here before this subcommittee today. If there are any questions, we will be happy to attempt to respond.

[The prepared statement follows:]

STATEMENT OF VINCENT L. CONNERY, NATIONAL PRESIDENT, ACCOMPANIED BY JERRY D. KLEPNER, DIRECTOR OF LEGISLATION, NATIONAL TREASURY EMPLOYEES UNION

I. INTRODUCTION

The problems of the Customs Service have continued to worsen in recent years. The policy initiating cutbacks in such a key revenue-producing and law enforcement agency is a failure since any savings result in long-run costs to American industry, and state, local and other parts of the federal budget. Clearly, more resources for Customs are needed. Yet the Administration instead is proposing more cutbacks in the face of rising traffic in international travelers and cargo.

II. CHALLENGES FACING CUSTOMS

Interdicting Drug Traffic—The monetary value of imported drugs and the number of users are at astronomical levels. The social cost alone of drug abuse is estimated at $10 billion annually. Ninety percent of the illegal drugs in the U.S. come from abroad.

Halting Illegal Immigration—The magnitude of the illegal alien problem is also far too high (between 3.5 and 6 million people). Cuts in Customs will weaken the agency's role in dealing with this problem.

Protecting the automobile and Steel Industries—The domestic automobile and steel industries are experiencing an unprecedented crisis. Customs is responsible for monitoring imports and plays a major role in protecting this industry.

Growing Tourism Industry—Foreign travelers spend an estimated $12 billion in the U.S. annually. This economic factor grew by 250 percent in the 1970's, well ahead of other areas, and is still growing. Customs cutbacks will threaten the Service's ability to meet the growing demands in this area.

Safeguarding American Agriculture—As the "medfly" crisis indicated, the introduction of foreign plant and animal pests or diseases can cause havoc in a vital domestic industry. Customs must have the resources to fulfill its critical responsibility to guard our borders against this threat.

Preventing Illegal Export of Critical Technology—American technology, especially in the computer, telecommunications, and electronics fields, is being exported abroad, constituting a threat to U.S. economic, and even military security. Customs has virtually no capability to inspect outbound shipments under its current fiscal constraints. A strong Customs presence in this area could provide critical help in solving these problems.

III. PROGRAM, BUDGET, AND POLICY ISSUES

Inspection and Control—This function of Customs is faced with unprecedented increases in workload (72 percent in cargo and 17 million passengers since 1974), but the Administration is proposing to reduce the number of Inspectors to 1974 levels. Already Customs inspects less than 1 percent of containerized shipments and instituted programs which have resulted in less vigorous enforcement of the law. The only alternative available to the Service is to require more overtime, but the Administration is seeking to curb the use of this resource as well.

Tariff and Trade—This function of Customs encompasses the collection of duties and the administration of quotas and other trade programs. These duties are performed by Import Specialists, a highly valuable group of employees with a great deal of expertise in this area. Even though Import Specialists collect a great deal of the revenue produced by Customs, the Administration is seeking to reduce this highly trained work force.

Tactical Interdiction—The Customs Patrol is charged with interdicting the flow of narcotics into the U.S. This force is small, but must deal with the tremendous flow of drug traffic into this country (over 7,000 aerial sorties alone) and only one percent are being successfully interdicted. Despite this deplorable situation, the Administration is seeking cuts in the Customs Patrol which will only insure the flow of more drugs into the U.S.

Alcohol and Tobacco—The Administration is seeking to eliminate the Bureau of Alcohol, Tobacco and Firearms and merge its alcohol and tobacco functions into Customs. However, the Administration has not allocated sufficient funds to perform these duties, thus insuring that Customs resources will be spread even thinner.

IV. NTEU'S RECOMMENDATIONS

We recommend an additional 300 Inspectors and $11,553,000 above the level of the fiscal year 1982 continuing resolution. This recommendation entails restoration of the 972 position reduction, and $37,432,000 imposed by the Administration.

We recommend an additional 200 Import Specialists and $8,122,000 above the level of the continuing resolution. This entails restoration of 268 positions and $10,883,000 cut by the Administration.

We recommend restoration of the 70 positions cut by the Administration from Customs Tactical Interdiction functions and an additional 30 more staff years to meet the enormous problems that exist in this area. This will prevent a RIF of 100 Customs Patrol Officers. The add-on for this restoration is $3,836,000.

In sum, we urge a restoration of Administration cut totaling 1,310 positions (in the above functions) and $51,011,000. Going further, we would add 530 positions and $20,815,000 for essential personnel. Thus, our total recommended addition to the Administration's budget request for fiscal year 1983 is 1,840 positions and $71,826,000.

STATEMENT

Mr. Chairman and distinguished members of the Subcommittee, I am Vincent L. Connery, National President of the National Treasury Employees Union. With me is Jerry D. Klepner, our union's Director of Legislation. As the exclusive representative of over 125,000 Federal workers, including all employees of the U.S. Customs Service worldwide, we are pleased to appear before you today to discuss the authorization of appropriations for the U.S. Customs Service for fiscal year 1983.

This will be the fourth major inquiry conducted by the Trade Subcommittee into the mission, needs, and resources of the U.S. Customs Service since the annual authorization of appropriations was mandated by the Customs Procedural Reform and Simplification Act of 1978 (Public Law 95-410). Previous reports of the Subcommittee have taken note of the critical shortage of resources handicapping the Service's ability to enforce the customs laws of the country, in the face of rapidly escalating growth of foreign commerce, international travel, and drug traffic.

These reports have stressed the necessity of finding solutions to an intolerable situation in which Customs is emerging as a bottleneck to the free movement of persons and goods at the nation's ports of entry. This Committee has taken the lead in strengthening Customs' aerial drug interdiction program, in ensuring Federal monitoring of petroleum and steel imports, and in requiring the test of new passenger processing techniques capable of speeding the flow of air travelers while not diminishing enforcement of the customs and immigration laws.

Based upon this background, it is with high hope that we welcome the present Congressional oversight of the U.S. Customs Service. In the face of the extraordinary circumstances stretching Customs to the limits of its capacity, decisions are urgently required to eliminate the present obstacles to international trade and tourism while safeguarding America's frontiers from the current tidal wave of illegal immigration and drug traffic.

In the search for solutions to this situation, we wish to underline three basic points:

First, it has been recommended on countless occasions additional personnel and other resources needed to perform effectively;

Second, it is extremely unwise to make economies, as has been the practice in recent years, at the expense of a law enforcement arm such as the Customs Service, because these reductions only rebound as long-run costs in other parts of state, local, and Federal budgets;

Third, the Congress must continue to take the lead in formulating sound program and budget policies for the Customs Service, because the Administration's budget proposals have been totally unrealistic. These recommendations have totally ignored our experience at our air, land, and sea ports, and have exacerbated a critical situation by causing Customs management to adopt policies that have created wide areas of minimal enforcement or non-enforcement.

Last year, the Subcommittee authorized $480 million for the Customs Service. In September, through the appropriations process, the Administration attempted to reduce this amount by $29 million, including a cut-back of 300 Inspectors, 200 Import Specialists, and 100 Customs Patrol Officers. Congress, however, refused to go along. In the Continuing Resolution which provided funding for fiscal year 1982, Congress provided $493.7 million and 13,200 staff-years, and directed the Administration to maintain Customs employment at the level of April 30, 1981.

The congressional intent to maintain the strength of the Customs Service and to prevent further reductions in personnel was expressed in two separate enactments during 1981, the Continuing Resolution and the Supplemental Appropriations and Rescission Bill 1981. Nevertheless, the Administration now proposes a fiscal year 1983 budget that would cut 1,338 staff-years from the Service below the level of the fiscal year 1982 Continuing Resolution. (This cutback is in Customs Service functions, and is independent of the proposed merger of the alcohol and tobacco regulatory functions of the Bureau of Alcohol, Tobacco and Firearms with the Customs Service.)

The Administration plans to achieve this reduction through a hiring freeze and attrition of 400 positions during the year, and a reduction-in-force (RIF) of 638 positions beginning this October 1. This program would entail a loss of 678 Inspectors, 100 Import Specialists and 54 Customs Patrol Officers through both RIF and attrition.

If the RIF is delayed until January 1, 1983, as Customs now plans, the number of persons discharged through RIF procedures would rise to 1,504, or approximately 14 percent of the presently authorized strength of the Customs Service. Coupled with the loss of 400 positions through attrition, this would yield a total reduction of 1,904 employees, including 873 Inspectors, 239 Import Specialists, and 97 Customs Patrol Officers.

Even these reductions are contingent upon favorable congressional action in these two areas:

First, the Administration plans to impose aviation user fees that would collect $6 million, and use these funds to support 300 Inspector positions on a reimbursable basis. If Congress fails to approve this plan, the required reduction-in-force could be 300 positions greater, rising to 2,204 positions;

Second, the Administration has requested a supplemental appropriation for fiscal year 1982 of $22,346,000, which would permit the alcohol and tobacco regulatory functions being transferred to Customs to be sustained at an operating level of 719 staff-years. Inasmuch as the transfer of the positions is to take place on April 1, 1982, the alcohol and tobacco program is predicated upon a 719 staff-year level of effort, and only 360 staff-years have been funded by the Administration for fiscal year 1982, it is necessary that Congress grant the requested supplemental. If Congress fails to do so, Customs would have to undertake an additional RIF of 359 positions. It is likely that the bulk of such a RIF would be taken from Customs functions, since alcohol and tobacco regulation has already been pared considerably, and the collection of $8.2 billion in alcohol and tobacco excises would be jeopardized.

With regard to fiscal year 1982, the Administration has not yet submitted, nor has Congress had the opportunity to consider, a pay supplemental to cover the 4.8 percent pay raise that became effective last October. Until such a supplemental is submitted, we do not know how much of the pay requirement, if any, the Administration would force Customs to absorb. We believe that any such action on the part of the Administration would result in a reduction in positions, and would violate the specific mandate of Congress not to effect a reduction in Customs strength below the level of April 30, 1981.

If the Continuing Resolution expires without enacting a similar provision in other legislation, the probability of some further reduction in Customs would increase during fiscal year 1982. We believe that the funding level provided by the Continuing Resolution is barely adequate, and we strongly oppose any further reduction in staffing or funds for the current fiscal year.

Such a proposal hardly squares with the Administration's avowed determination to crack down on the rising tide of violent crime, narcotics trafficking, and illegal immigration that is sorely afflicting this country. Last year, the Attorney General's Task Force on Violent Crime strongly recommended additional resources for Federal law enforcement agencies as the single most significant step the Federal government could take to stem the present wave of crime. The Task Force stated: "We wish to emphasize that the Federal Government's first priority should be to provide adequate resources to its own offices which are involved in fighting violent crime and to assure that its policies are clear and sound in all matters which impact on state and local law enforcement."

The Task Force also called for "a clear, coherent, and consistent enforcement policy with regard to narcotics and dangerous drugs", to include "a border policy designed to effectively detect and intercept the illegal importation of narcotics, including the use of military assistance." Yet Customs, which is on the front line in this struggle as the nation's principal border enforcement agency, is to be reduced by 742 staff-years in its Inspection and Tactical Interdiction resources under the Administration's budget proposal.

Nowhere is the duplicity of the Administration more evident than in the contrast between the resources provided in its budget and its anti-crime rhetoric. The Administration's proposal would result in the wholesale dismantling of the protections afforded the American businessman, the American worker, and the public through effective enforcement of the Customs laws. Once again the burden is on Congress to formulate a rational policy, and to begin this year by providing essential resources to eliminate the congestion at our ports of entry, stem the decline in enforcement, and lay the foundation for a modern, effective Service in the future.

We welcome the opportunity to participate in this task as the representative of the thousands of dedicated Customs employees whose service is of inestimable value to the nation, yet who have been remarkably ill-served by this Administration.

In the remainder of our testimony, we would like to call the Subcommittee's attention to today's challenges to Customs law enforcement, and the environment in which the Service must accomplish its mission. We would then like to discuss the major problems and issues in each of the principal areas of Customs activity: Inspection and Control, Tariff and Trade, and Tactical Interdiction. We will also present our views on the proposed absorption of the alcohol and tobacco regulatory functions of the Treasury Department. We will conclude with recommendations for an alternative budget for Fiscal Year 1983.

The challenge to Customs enforcement today

As the nation's principal border enforcement agency, the Customs Service is responsible for processing the flow of merchandise and travelers at over 300 ports of entry, and for interdicting the movement of illegal narcotics and contraband between these ports. With approximately 15,000 full and part-time personnel, Customs is responsible for a frontier that is 26,000 miles in length as the crow files, and 100,000 miles if measured by the length of the tidal shoreline. By contrast, many other developed countries have a much larger force to carry out the customs mission. For example, the German Customs Administration employs 34,700 persons, yet the frontier of the Federal Republic is only 2,000 miles long.

The question before the Congress today is whether Customs is to be provided the resources needed to effectively carry out the customs laws. These laws were passed by Congress to protect important American interests. In recent years, as the economy has become increasingly open to foreign trade, and international travelers have visited our country in record numbers, challenge of enforcement has increased and brought with it a requirement for additional resources. The question then becomes one of weighing the cost of the additional resources against the cost to society of non-enforcement of the customs laws.

The following are examples of important American interests that are protected by Customs, and where lax enforcement would be extremely costly to the economy and society:

1. Interdicting the drug trade

The retail value of illicit drugs supplied to the U.S. market in 1980 is estimated by the Drug Enforcement Administration (DEC) to be $70–90 billion, well above the estimated $56–73 billion in 1979 and almost double the $44–63 billion in 1978. Today, in America, there are an estimated 400,000 to 450,000 heroin addicts, 25 million people who use marihuana at least monthly, 10 million cocaine abusers, and more users of dangerous pills such as quaaludes than ever before.

The burden of drug use has a significant impact on the health care system, the criminal justice system, the employment market, and the social services system. The Strategy Council on Drug Abuse has estimated that the social cost of drug abuse is $10 billion annually. In the first quarter of 1980, 60,000 persons were admitted to federally funded programs for drug abuse of all types, according to the National Institute on Drug Abuse. This is a rate of 240,000 admissions annually, up 10 percent over 1979.

Of special concern is the impact that drugs smuggled into this country have on our youth. The Director of the National Institute on Drug Abuse has testified that "our young people still show the highest level of drug use of young people anywhere in the industrialized world." In 1980, 9 percent of our high school students used marihuana daily. The number of young adults, age 18–25, using cocaine is estimated at 1,100,000.

An estimated 90 percent of the drugs abused in this country come from abroad. The Chairman of the House Select Committee on Narcotics Abuse and Control testified last year that, according to the best government estimates, no more than 10 percent of the drug traffic is interdicted. Last year, between 40 and 48 tons of cocaine were imported, and between 10,600 and 15,500 tons of marihuana were consumed. Much of this was flown into the country by sophisticated aircraft. Customs estimates that, of an estimated 7,000 sorties a year entering the country, only about 1 percent are successfully interdicted.

The regional impact of the illicit drug traffic is particularly severe in the Southeastern United States. According to Customs and DEC, an estimated 70 percent of the cocaine, 80 percent of the marihuana, and 90 percent of the quaaludes smuggled into the United States comes through Florida, Georgia, and the Carolinas. In Florida alone, the drug traffic is estimated at $7–$10 billion annually. This amount is not only untaxed, but is severely distorting the local economy, particularly the real estate market. In a column from Miami on November 22, 1981, titled "The Cocaine Lords are Winning", James J. Kilpatrick summed up the reaction of a dozen local police chiefs: "What's wrong with Congress? the chiefs ask. Why doesn't Congress act on these things?"

The high rate of drug use in the nation is intimately linked with the rising rate of violent crime, which increased 9 percent between 1979 and 1980. The Attorney General's Task Force on Violent Crime stated: "Throughout the course of our hearings, a recurrent theme has been the importance of more effectively combatting narcotics traffic. From Washington to Los Angeles, from Detroit to Miami, we have heard officials and scholars stress the connection between drugs and violent crime."

Customs Inspectors, Customs Patrol Officers, and Special Agents play a vital role in the war against drug traffic. Sufficient resources to maintain and improve Customs' tactical interdiction capability are absolutely crucial. We urge the Subcommittee to immediately increase the tactical interdiction resources of the Customs Service on land, sea, and air in order to make greater progress against cocaine and marihuana flooding into Florida and other Southeastern and Gulf Coast States from Latin America.

2. Halting illegal immigration

The Customs Service participates in the control of illegal immigration at land border ports and outports where no Immigration and Naturalization Service (INS) Inspector is available, and at airports where Customs and INS Inspectors are cross-trained to perform each other's missions. The magnitude of illegal immigration into the country, and the attendant social consequences (lost jobs, lower wages, sweatshop working conditions, and strained community services), is fueling the call for better enforcement at our nation's frontiers.

The Administration, seemingly, has placed itself at the head of this movement. After receiving the report of the bi-partisan Select Commission on Immigration and Refugee Policy last year, the Attorney General submitted legislative proposals to Congress in July. The Administration pointed out that there are currently between

3.5 million and 6 million people in the United States illegally—at least 50 percent from Mexico. Moreover, about 1 to 1.5 million persons entered illegally in 1980. Calling for enactment of the President's program, the Attorney General stated: "There is only one real issue in the debate over our devastating immigration problem: will the nation at last summon the will to take the necessary steps to solve it? Or will the neglect of decades continue, posing the possibility that the problem quite soon will be beyond reasonable hope of correction?"

The Attorney General is right, of course, in calling this a devastating problem. But it is difficult to see how the Customs Service personnel reductions serve the cause of halting the tide of illegal immigration. We urge the Subcommittee to recognize the joint role of Customs and INS in carrying out this important mission, and to allocate the additional resources necessary to secure our society and economy from this growing burden.

3. Protecting the American automobile industry

As this Subcommittee is acutely aware, the domestic automobile industry is in the throes of an unprecedented crisis and the question of restricting foreign automobile imports is very high on the national agenda. During 1981, foreign imports as a percentage of total automobile sales rose to the highest level in history, 27.2 percent up from 26.7 percent the year before. At the end of December 1981, 213,000 automobile workers were on indefinite layoff, compared to 190,000 a year earlier.

At the present time, the Customs Service is responsible for monitoring the volume of automobile imports, ensuring compliance with U.S. emission control standards, classifying shipments in accordance with the U.S. tariff schedules, and collecting appropriate duties. While the Japanese have instituted a policy of voluntary restraint aimed at restricting automobile exports to this country to 1.6 million units a year, figures show that 1,778,495 units were imported from Japan in 1981.

It is unclear whether additional relief will be needed to save American jobs and help rejuvenate an ailing industry. Should a quota be adopted, or an orderly marketing agreement formally placed into effect, it is clear that the burden of administering such a policy will fall squarely upon the Customs Service. Considering the real possibility of such action, and the important national interest involved, the shortsightedness of a cutback in the Inspectional and Classification and Valuation resources of the Customs Service at this juncture becomes readily apparent.

In this connection, Mr. Chairman, we would like to note the warning sounded in the report of the Congressional trade delegation which you headed and which visited the Far East last summer. You pointed out that Japan has traditionally protected its new industries from import competition while fostering their growth and promoting their exports. Only when Japanese industries were world-class did Japan liberalize her trade barriers and permit competition in its domestic market. Your report stated: "We do not know if it (Japan) will repeat itself in the new industries of the 1980's, such as genetic engineering, software and aviation, but the U.S. must be prepared to prevent this pattern from recurring."

If this goal is to be achieved, Mr. Chairman, protecting American industries through import restrictions of our own is one of the many policies that will be considered, and we submit that this country should not unilaterally disarm itself in this regard by failing to provide adequate resources for its Customs Service. From what we understand, Japanese Customs has been quite successful in protecting Japanese markets through both visible and invisible barriers to trade.

4. Protecting the domestic steel industry

In a similar vein, the difficulties of the U.S. steel industry in recent months serve to illustrate the Customs role in safeguarding another vital national economic interest. As you are aware, implementation of the steel Trigger Price Mechanism (TPM) from October, 1980 until its recent suspension on January 11, 1982 was a Customs responsibility. For each steel shipment to this country, Customs determined volume, price and country of origin data, computed an adjusted price for the shipment and an associated trigger price, and forwarded this information to the Department of Commerce and the International Trade Commission for a determination of whether dumping had occurred and whether there had been any injury to domestic industry resulting from these imports.

On January 11, 1982 the TPM was suspended by the Administration when several major domestic steel producers filed complaints with the International Trade Commission alleging that certain foreign producers violated the anti-dumping and countervailing duty laws. On February 18, 1982 the International Trade Commission ruled that most of the complaints filed showed a reasonable indication of material injury to the domestic steel industry.

The TPM is a good example of what happens when a new mission is imposed upon the Customs Service without providing the additional resources required for its accomplishment. At the height of the TPM, the Customs Service had committed approximately 150 Import Specialist staff-years to this function because of the high priority assigned by the Congress and the Administration. Customs testified during last year's authorization hearings that this resulted in increased entry backlogs in other product lines, with the consequent degradation of the appraisement function and service to importers in these other lines.

While the TPM is not presently in effect, the data collection capability of Customs must remain in place should it be reinstated at some future point. The entire experience points to the need for adequate Customs resources so that the Service will have the necessary flexibility to meet new responsibilities without detracting from other important missions.

5. Serving a growing domestic tourism industry

One of the major factors affecting Customs resource needs is our national policy of encouraging foreign visitors to this country. This has led in recent years to the rapid growth of passenger arrivals at our air, land, and sea ports, visibly taxing Customs processing capabilities. Moreover, as many of our cities and regions seek to participate in the growing tourist trade by becoming international gateways, the inability to provide adequate Customs personnel to staff these new facilities is becoming painfully apparent.

This country has too much to lose by allowing Customs to become a hindrance to the futher development of our expanding tourism industry. Foreign visitors are now coming to the U.S. at the rate of 22 million a year, about 8 million from overseas. In 1980, these visitors spend an estimated $12 billion while in the United States, producing approximately $1.4 billion in Federal, state and local tax revenues. Moreover, between 1970 and 1979 these expenditures grew by more than 250 percent, well ahead of other measures of economic activity.

After the top three American exports—chemicals, motor vehicles and parts, and grain and cereal preparations—tourism brings in the most revenues among U.S. export earnings.

The domestic travel and tourism industry is now the third largest industry in the United States, employing more than 6 million Americans and producing more than $118 billion in annual sales. Commerce Department statistics show that more than a million establishments benefit directly from foreign tourists' spending in this country. More than 95,000 U.S. jobs were directly supported by foreign visitors' food purchases alone in 1978.

Regionally, the New England states aim for the Canadian market, while the Southwest aims for the Mexican market. Canada and Mexico have consistently accounted for the largest number of foreign tourists entering our country. According to the U.S. Chamber of Commerce, Miami and St. Louis have launched extensive efforts to attract British visitors. Tourists from West Germany, Japan, and France are also being eagerly sought by our aerial gateways.

In 1980, for the first time, the number of foreign visitors from overseas (more than 8.1 million) outnumbered the number of Americans who visited overseas. This trend has continued. Along with the rapid growth of international passenger arrivals at our airports (approximately 12 percent a year), the increasing proportion of aliens is presenting a new challenge to Customs Inspectors responsible for processing these visitors. At the same time, the advent of wide-body aircraft has led to frequent congestion and overtaxing of facilities. As is well-known, even greater delays within the inspectional facility are routine, caused mainly by the shortage of Inspectors.

At the request of this Subcommittee, Customs, INS and the Department of Agriculture have been testing at Miami and Los Angeles a new Federal inspection procedure known as ASIST, the Accelerated Special Inspection System Test. We understand that a report evaluating the new procedure from the standpoint of both passenger facilitation and enforcement is due to be submitted to the Subcommittee in the near future. Inasmuch as the report has not been completed, we are unable to comment on the ASIST program at the present time.

Nevertheless, recent experience makes clear that if the U.S. is to exploit its natural advantages as a mecca for foreign visitors, the Customs Service must be provided with an adequate number of Inspectors to reduce present congestion and accommodate the expected growth in future traffic. The Air Transport Association has estimated that an additional 230 Inspectors are needed immediately at our airports. Many of our land border ports are also experiencing lines 2–3 hours long, e.g., San Ysidro and Niagara Falls, and this imposes an additional requirement.

We strongly urge the Subcommittee to consider the needs and the potential of the domestic tourism industry in weighing the benefits of providing the Customs Service with adequate resources. Certainly the advantages to the nation's economy and balance of payments, plus the additional tax receipts accruing from tourist expenditures, would far outweigh the cost of several hundred additional Inspectors.

6. Safeguarding American agriculture

One of the principal missions of the Customs Service is to prevent the introduction into this country of foreign plant and animal pests that would endanger American agriculture. The paramount role of agriculture in the U.S. economy, and the large costs of eradication should an outbreak occur, argue for an adequate level of baggage inspection at our ports of entry.

For the most part, the U.S. Customs Service performs primary inspection of international air passengers. Based on the declaration form, the finding of agricultural items, and in some cases, a passenger profile provided by the Animal and Plant Health Inspection Service of the U.S. Department of Agriculture the Customs Inspector may refer the passenger to a Plant Protection and Quarantine Officer for secondary agricultural inspection.

Last year, before the Mediterranean fruit fly became a household word, we pointed to the fact that the Agriculture Department had exhausted its contingency funds for combatting this pest which feeds on over 800 different fruits. Now that we are over last year's crisis in California and Florida, it is sobering to note that a general infestation of the Medfly in the United States would cost an estimated $200-250 million annually in losses to agriculture.

The U.S. has not had an outbreak of Foot and Mouth Disease since 1929, and it is estimated by the Department of Agriculture that it would have a $10 billion impact on the livestock industry during the first year if introduced into this country today. African Swine Fever is another animal disease which may enter the U.S. through pork products contained in passenger baggage or airline waste. There is no known treatment for this disease, and the initial economic impact in the U.S. would be $2 billion in losses the first year.

The soil from plants carried by an unwary traveler serves as a natural carrier for nematodes and many other pests. Potential crop losses could increase 5-10 percent if additional nematodes are introduced into this country, according to the U.S. Department of Agriculture.

Passenger-carried meat and meat products also pose a serious threat. In fiscal year 1980, 123,128 individual lots of meat and meat products totaling 305,635 pounds were confiscated from arriving air travelers. All of these products represented a potential source of animal disease that could severely damage our livestock industry.

In the past, this Subcommittee has taken a firm stand on the importance of adequate agricultural inspection as a safeguard that must not be relaxed. This position is fully documented in last year's report on the Customs authorization bill. We urge the Subcommittee to persevere in this course, and to consider the paramount requirements of American agriculture in its deliberations on the adequacy of Customs resources.

7. Preventing the export of critical technology

One of the largest areas of Customs staffing deficiency is the outbound clearance of exports. Such capability is virtually nonexistent. Faced with a rising tide of imports, the resources for monitoring exports have gradually been withdrawn. Even spot-checks of outbound shipments are seldom made.

The costs of such negligence are now being driven home by the discovery in recent months of a pervasive pattern of activity by Soviet agents to pry away the secrets of American high technology by offering bribes and huge sums of money to obtain products on our export control lists. Their targets are lasers, fiber optics, computers, microelectronic devices, and telecommunications equipment.

In 1980, the president of Spawr Optical was convicted of shipping about 50 high-energy laser mirrors to a laser research laboratory in Moscow. After being denied an export license for shipment of the mirrors, Spawr deliberately understated their value to the Customs Service and made the delivery through Swiss and West German intermediaries. Intelligence sources told the court that the mirrors may have been used in tests of Soviet anti-satellite weapons.

Two years ago, two top officials of a California computer firm were convicted of shipping more than $1 million worth of computer machinery to the Soviet Union without a license. The computer machinery was crated with air conditioners and washing machines and sent through Germany and the Netherlands to Moscow.

According to an article in the Washington Post last spring, the FBI has investigated at least 30 cases in which the Soviets offered bribes to buy lasers and fiber optics that were on the export control list. Lasers have military uses in space. Fiber optics can be used to make small, secret communications devices. FBI Director William H. Webster is quoted as telling the Washington Post: "The Russian targets are no longer weapons and strategy. The emphasis is now on technology, and they will go to any lengths to get it."

After investigating the effectiveness of U.S. export controls last year, the New York Times concluded:

"Despite the growing concern of government officials that sophisticated American technology and arms are being illegally shipped to unfriendly nations, including the Soviet Union, the Federal agencies charged with administering the export control laws remain understaffed and their enforcement efforts are spotty."

"According to Reagan Administration officials, the Government makes relatively few inspections of outbound shipments, prosecutions are rare, penalties are comparatively light and there is a backlog of unfinished investigations."

In the same article, a Customs official is quoted as stating that the Service would need 565 additional Inspectors for a nationwide inspection program. The official noted that, "As a matter of routine, we don't inspect outbound shipments," He said that Customs did some spot-checking and planned to do more, but added that it was relatively easy to export items illegally. Lastly, officials of both the commerce and State Department's export control offices were reported as agreeing that an intensive program of spot inspections would serve as a serious deterrent.

Because of its physical presence at the nation's frontiers, with control over both inbound and outbound shipments, Customs is at the present time the principal export control arm of the Federal government. It enforces two basic laws:

(1) *The Arms Export Control Act (22 U.S.C. 2778).*—This Act concerns the export of arms, ammunition, implements of war, and other military technology. The Office of Munitions Control of the Department of State administers the Act, issues regulations concerning controlled commodities, and grants export licenses. The Customs Service is responsible for enforcing the Act and investigating violations.

(2) *The Export Administration Act of 1979 (50 U.S.C. 2401).*—This Act concerns products and technologies which may have both peaceful and military application, whose export is controlled for reasons of national security, foreign policy, or short supply. The Act is administered by the Office of Export Administration of the Department of Commerce, which issues lists of controlled items and export licenses. Customs participates in export inspections and investigations of violations of the Act.

Recently, because of widespread interest and the personal intervention of the President on behalf of stricter enforcement. Customs launched "Operation Exodus," an experimental export enforcement program, at 10 major ports of entry. At each port, one or more three-man teams, consisting of an Inspector, a Customs Patrol Officer, and a Special Agent will conduct spot-checks of outbound shipments and follow up investigative leads. The teams will be supported by designated Import Specialists and Regulatory Auditors. Altogether, 34 teams will be operational at the 10 ports during 1982. The program will last 9 months and then be evaluated.

It is symptomatic of the shortage of resources in Customs that no more than 130 personnel in toto will be assigned to this vital program. This is another example of a failure to provide the resources required for a new mission. The inevitable consequence is that Customs will have to divert resources from other priority areas. The effect on those areas is the same as a cut in staff. In this case, 35 Inspectors. 34 Customs Patrol Officers, and 10 Import Specialists and Regulatory Auditors will be withdrawn from line functions in order to staff Operation Exodus.

Without a doubt, this is an area that requires serious study by the Subcommittee. We have continually pointed to the deficiency in outbound clearance of both vessels and aircraft as a prime example of reduced inforcement occasioned by the lack of adequate resources. Here again, the cost of providing the necessary resources is far outweighed by the present cost to the nation of illegal exports of critical technology.

Program, budget, and policy issues

Let us turn now to a discussion of the workload and resources in each of Customs' functional areas: Inspection and Control, Tariff and Trade, and Tactical Interdiction. We will also focus on the major issues that deserve consideration by the Subcommittee.

Inspection and control

There is a large and growing workload/resource imbalance in the Inspection and Control function of Customs, due to the continued growth of international trade and tourism, and personnel cutbacks. Some significant indications of the Customs workload in this area are:

U.S. merchandise imports, by volume, have been growing at an 8 percent annual rate during the past decade, and are projected by Customs to continue growing at this rate through 1985.

Commercial airline passenger arrivals from abroad have been growing at a 12 percent annual rate in recent years, and increasing by about 3 million a year.

Total persons arriving from abroad at our air, sea, and land ports of entry will increase by 13.5 million between 1982 and 1983.

Cargo imports by air have been growing at a 14 percent rate in recent years, and are projected to increase to 1.5 million tons in 1983, double the level in 1978.

Customs resources in the Inspection and Control area are indicated in Table 1, which shows the trend in the number of Inspectors compared to Customs total employment since 1972. While there was an increase of 200 Inspectors during fiscal year 1981 and 1982, this gain would be totally eliminated by the reduction of 400 Inspectors proposed by the Administration. This would reduce Customs to the number of Inspectors it had in 1974, despite a 72-percent growth in merchandise imports and a 17 million increase in air passenger arrivals since that year.

The workload/resources imbalance is further illustrated by Exhibit I, appended to our testimony. This charts the actual and projected workload to 1985, and compares this workload to Customs outlays in constant dollars. The results are striking. All the workload trends are rising. However, Customs resources, in terms of real outlays, stay at about the 1975 level. This fact is further confirmed by the Inspectors data in Table 1, which shows no increase in the number of Inspectors since 1975.

These few facts clearly demonstrate the crux of the problem confronting the Customs inspectional force today. Workload continues to rise, yet the number of Inspectors remain stable. As a result of increased demands from importers and carriers, the static work force is required to put in longer hours on the job. Overtime mounts and becomes the principal resource utilized to accommodate the growing demand for service.

As the workload continues to outstrip the capacity of the Inspectional force, the point is ultimately reached where concessions are made in the form of reduced enforcement. Sadly, countless signs of this erosion abound in the Service today. Some prominent examples are:

Customs has been inspecting less than 1 percent of all containerized shipments, despite clear evidence of increased drug seizures and revenues accruing from improved enforcement. Last year, the number of containers inspected fell to 0.3 percent of the total number imported.

At many coastal ports, private vessels such as boats and yachts arriving from foreign destinations have been placed on a virtual honor system with regard to Customs inspection. Owners are permitted to notify Customs telephonically within 24 hours of arrival, and the formalities usually consist of negative replies to a few questions. Customs attempts to keep this system functioning through spot-checks, but only a tiny fraction of arrivals are even inspected.

Customs has gone to a system of general supervision of vessel unloading. Instead of one Inspector assigned to a ship, the Inspector may now perform inspections at docks miles apart, and must leave one site for another even though his or her presence would be a deterrent to smuggling at the initial location.

At many ports, Customs lacks the resources to exercise proper supervision over the gauging of tankers by representatives of the oil companies. Consequently, Customs' role as the only independent source of crude oil and petroleum product imports information, essential to the formulation of energy policy, is in jeopardy.

Customs lacks the resources for an effective program of outbound clearance of ships and aircraft, and, as a result, controls over the export of critical technology are virtually non-existent.

In outlying areas, Customs lacks the resources needed to ensure the physical security of the Inspectors themselves. It is not unusual for Inspectors at many land border ports, or on "graveyard shift," to work alone. The lone Inspector is exposed to encounters with narcotics traffickers, fugitives, terrorists and other criminals. Help in many instances is two or more hours away. For these reasons, we strongly believe that Inspectors, for their own security, should be teamed on isolated assignments.

On May 25, 1979 in Lynden, Washington, a lone Customs Inspector on duty was shot and killed by an escaped felon who was entering the U.S. from Canada. Despite repeated requests from this union and members of Congress from the state of Washington, Customs to this day has not assigned sufficient Inspectors to permit greater security at this port of entry.

Finally, we have previously called attention to the continued shortage of Inspectors at our airports. The need for Inspectors to process passenger means that less attention can be given to cargo processing, with a consequent increase in opportunities for smuggling in this area.

Mr. Chairman, these conditions are symptomatic of a general breakdown in enforcement which our union, as the representative of U.S. Customs Inspectors, has been emphasizing since 1978. The unvarnished truth is that there are wide areas of minimal enforcement or non-enforcement of the Customs laws today, and more are emerging. Surely it is a Congressional responsibility to provide the dedicated men and women of the Customs Service with the resources they need to do the job.

Last year, the Trade Subcommittee directed Customs, in conjunction with the INS and the Department of Agriculture, to test new methods of passenger processing at our airports, with the objective of minimizing delays to travelers, while maintaining enforcement. In compliance with this directive Customs initiated ASIST, the Accelerated Specialized Inspection System Test, at the Los Angeles and Miami airports. It is our understanding that the results of this test are still being evaluated. Nonetheless, we have been notified by Customs that it intends to continue ASIST at those airports indefinitely.

This decision seems to indicate that Customs is sufficiently satisfied with the results to give its blessing to yet another inspection technique. Or this may simply reflect a decision by Customs management to bow to the inevitable. Whatever the case may be, large questions have been left unanswered. What was the impact of the test on enforcement? Have the Department of Agriculture's concerns over the inspection of baggage been allayed? Has the General Accounting Office (GAO) participated in the evaluation, as this Subcommittee requested? If so, where is the GAO's assessment of the scientific validity of the test?

We can assure the Subcommittee that, while we have always been in favor of innovation in the Service, we will not endorse a program that is simply a rationalization for lax enforcement. We are quite aware of the pressures to expedite the flow of passengers at our airports. We are also aware of the danger, in this environment, of selecting a system that compromises enforcement for the sake of facilitation, and we will never be a party to it. We intend to give the final test report the utmost scrutiny. The best service that Customs can perform at this point is to make the interim report on this project available to the Subcommittee and the public, while expediting preparation for the final report.

Let me turn now to the subject of cargo processing, which is another area where Customs appears to be moving headlong toward nationwide adoption of a new inspection system without a proper evaluation of the costs and benefits including the impact on enforcement. During FY 1980, Customs tested a prototype version of a new cargo clearance system for use at seaports, known as ACCEPT, or Automated Cargo Clearance and Enforcement Processing Test. The results indicated that the program was a failure. The system was restructured and tested during FY 1981 at the Port of New Orleans. Now we are advised in the Customs budget documents that ACCEPT is being programed for adoption nationwide.

The Customs Service has issued a report on the New Orleans test which leaves many fundamental questions unanswered. The document cites numerous statistical advantages associated with the use of ACCEPT, but fails to explain fully how these were realized. We do not believe that these inadequately substantiated findings alone justify adoption of the ACCEPT program nationwide. The Office of Inspection in Customs is now developing a plan to implement the system on a national basis. We believe that this Subcommittee as well as members of the public should be given an adequate opportunity to study and comment on such a major change in the way cargo is processed before it is put into effect. Until then, the program should not be adopted, particularly since the initial results of the test were so negative. The idea behind ACCEPT is simple. Since Customs can only make a limited number of inspections, it should concentrate these on "high risk" shipments where the payoff is potentially greater for the inspectional resources expended. The problem is: How do you determine which are the high risk shipments and who are the high risk importers? What are the criteria? Country of origin, for example, would have to be considered. Any shipment from Columbia ought to be suspect as to drugs whether an importer has a good record or a bad one of whether the port of entry was New Orleans or Detroit.

Moreover, once it becomes known that certain shipments and certain importers are receiving minimal inspection, what is the plan for dealing with the infinite ingenuity of the smuggler who attempts to beat the system? What about shipments that are potentially harmful once they enter the stream of commerce, such as adulterated foodstuffs and improperly labeled medicines? When Inspectors were taking samples, such shipments could be stopped at the port. Now the full burden will fall upon the Import Specialist, but by the time he or she gets the documents it is too late—the mechandise is on sale in Kalamazoo. How will ACCEPT protect the public health and safety?

We strongly urge the Subcommittee to bar any funds for the implementation of this program until a complete report is presented to this panel and you are fully satisfied that this program will not have the profound adverse impact on enforcement that we fear. The Subcommittee should not simply accept unsubstantiated assertions that because this system is "automated" and "computerized," it is a truly effective enforcement tool, and not a scheme for minimal enforcement or non-enforcement through exclusion from inspection of many goods imported into this country. We will be pleased to assist this Subcommittee in any way possible with your review of the ACCEPT program.

In this connection, we would like to call to the Subcommittee's attention a regulation issued by Customs and published in the Federal Register of September 10, 1981. This regulation has the effect of waiving Section 499 of the Tariff Act of 1930 which requires the inspection of not less than one package of every invoice and not less than one of every 10 packages of imported merchandise. The law specifically authorizes the Secretary of the Treasury to provide, by regulation, that a lesser number of packages may be examined when, in his opinion, the examination of a lesser proportion will amply protect the revenue.

The intent of this provision was to allow the reduction, at individual ports, of the number of inspections of specified goods or classes of merchandise. The authority granted to the Secretary clearly cannot be utilized to totally abrogate the standard for inspection (one package out of 10) contained in the law.

Yet this is precisely what Customs has done in a most blatant manner. This new regulation allows the release of merchandise with no inspection at all, contrary to the express provisions of the Tariff Act of 1930. Under this Act, the Secretary of the Treasury is authorized to permit reduced inspection, but cannot simply waive all inspection of imported merchandise. Such an action is contrary to law and sensible policy.

In reviewing projects like ACCEPT, this new regulation is very enlightening. Apparently, the thinking of some Customs officials is that, indeed, entire commodity lines may be safely excluded from inspection. In our opinion, the only word that can describe such a mentality is non-enforcement.

We urge the Subcommittee to thoroughly review this regulation, and to assess what would happen to our entire system of import controls were the requirement for inspection abolished. The Tariff Act of 1930 has protected the health and safety of the American people for over 50 years. The standards it contains are sound. We request the Subcommittee to ensure that no appropriated funds are used to implement this regulation until Congress has the opportunity to deliberate whether such a change in the 1930 Tariff Act is sound public policy.

Customs is also considering the elimination of its warehouse program. Under this program, Customs employees are assigned to bonded warehouses on a reimbursable basis in order to provide for the orderly release of in-bond merchandise into the stream of commerce. The opportunity for physical inspection of a shipment is greatest at the warehouse site. Indeed, with over 70 percent of the nation's seaborne cargo now arriving in containers which proceed directly under bond to warehouses or foreign trade zones inland, these locations are the most effective from the standpoint of physical inspection and control.

Nevertheless, it is our understanding that Customs is now planning to seek the removal of Customs employees from bonded warehouses and turn the release of merchandise over the warehouse management. We trust the Subcommittee will wish to inquire about this plan, and see that it receives a full public airing.

We would like to call attention to the fact that, in its report on the authorization of appropriations for fiscal year 1981, the Trade Subcommittee called upon Customs to conduct an in-depth national audit of bonded warehouses. The Subcommittee report noted "incredible" abuses in the warehouse program. We do not know whether such an audit has been completed, but certainly its finding would have a bearing upon any review of Customs plans for terminating its presence at the warehouses.

Let us turn now to the subject of Inspectional overtime. It is our belief that there is an increasing awareness in the Congress that the overtime earnings of Customs Inspectors are a reflection of the enormous demands made upon these men and women to process a steadily growing workload. Given its limited work force, the Customs Service has since 1975 been using overtime funds as a resource to meet the increasing demand for clearance of passengers and cargo. The overtime earnings of Inspectors are just compensation for long and irregular hours, and physically demanding and hazardous duties.

Customs Inspectors must be available at all hours to assist the traveling and importing public. Overtime assignments are a public service required of our Inspectors—a duty they cannot refuse. An Inspector with overtime earnings of $15,000-$20,000 a year works, on the average, 62 hours a week 52 weeks a year for the convenience of the public and to ensure enforcement of our Customs laws.

It is unfair when some members of Congress seem to forget that Inspectors are husbands and fathers, wives and mothers, and are entitled to lives of their own.

It is unfair when Customs Inspectors are the only group of Federal employees singled out for an arbitrary cap on their earnings.

We believe the time has come for the Congress to demonstrate its sensitivity to the problems encountered by Inspectors by removing the overtime cap on their earnings.

We believe this should be done for the following reasons:

The overtime cap is interfering with accomplishment of the Customs mission. Inspectors who exceed the cap are not available for overtime assignments, and some services are not being provided on overtime even though the services are reimbursable, e.g., charter aircraft clearance, general aviation inspections, release of air freight, and ship clearance.

The cap is preventing the proper allocation of resources among ports experiencing different rates of growth. Instead of workload being processed by local Inspectors on overtime, Inspectors have been transferred from other ports at government expense to do the job.

The administration of the overtime cap is costing Customs over $500,000 annually.

Customs has itself called for removal of the cap. Last year, Customs testified: "In fiscal year 1980, the year the overtime cap was imposed, only two Customs employees exceeded the $20,000 cap. However, this was only accomplished at increased expense to the government, working lower graded employees an excessive number of hours, and by changing employees work locations or assignments. We have implemented many new procedures and instituted controls to eliminate over time abuse and to comply with the $20,000 overtime cap. We feel that we have been very successful in this endeavor. In fiscal year 1981, we are finding it exceedingly difficult, with the increasing workload and the decreasing number of inspectional staff, to operate within the $20,000 limitation. Our ability to continue to provide the services required of us is being jeopardized by the constraint placed upon us to operate within this limitation. It may be shortsighted to continue the overtime cap since additional costs would be incurred to shift staff in order to operate within the overtime constraint.

"We recommend that the overtime cap be removed entirely. We believe that by continuing to exercise constraint and maintaining the overtime controls that we've established that overtime will be controlled. Eliminating the overtime cap will open alternative solutions to problems as they arise regarding increased workload and decreasing staff."

The cap is severely affecting employee morale. It has required the equalization of overtime earnings among employees, requiring lower-graded workers to work more overtime, and prohibiting employees who would be willing to work longer hours from doing so. It is important to morale, and a more efficient and productive workplace, that individual employee motivations be taken into account in making overtime assignments. Employees willing and able to to work more overtime should be permitted to do so, as this minimizes the burden of forced overtime assignments on their fellow workers, and allows trade-offs on special occasions such as weddings and other family events. Some persons prefer more work, others prefer more leisure. Morale at the workplace is fostered by allowing individual preferences to play a greater role in overtime assignments, not by enforced equalization of earnings.

We would like to call to the attention of the Subcommittee the fact that last year, at our request, the Customs Service conducted a statistical study of Inspectional overtime. This study assembled data from 40 ports for one week in each quarter of fiscal year 1980. The ports selected were the largest seaports, airports, and land border ports representing 80 percent of the total inspectional workload and 75 percent of inspectional staffing. These ports accounted for 72 percent of toal rembursable overtime earned. The specific over time information was obtained from nearly 66,000 records of assignments for the 4-week sample.

The findings of this study are so significant with respect to the rate of Customs inspectional overtime pay that we would like to quote them:

"The national average earnings per assignment and hourly rate based on a GS-9 Step 5 (the average inspector grade level) are: (1) Sunday=$158.24 (2.1 times the average hourly rate); (2) Saturday=$87.23 (2.4 times the average hourly rate); (3)

Weekday (Monday to Friday)=$78.63 (2.4 times the average hourly rate); (4) Holiday=No Insufficient data).

"The average earnings are indicative of the double-time rate of compensation as provided in the Act of 1911. The rate on a Saturday or weekday of 2.4 times the hourly rate of a GS-9/5 inspectors is higher due to the "roll back" provisions of the Act which provide special compensation to an employee who has left the work site and is called back in to work."

One other significant finding of the study relates to the amount of time worked by Customs Inspectors on Sundays. This, as you know, has been the subject of much demagogery by ill-informed individuals who have alleged that Customs Inspectors are reporting for work for an hour or less and receiving two days pay. the facts, confirmed by the study, ae that the average Inspector works 7 hours on Sunday assignments, and an average of 8 hours if holidays are included in this figure.

The findings of this study have an especially important bearing on a bill, introduced at the request of the Administration, that would amend the Act of 1911 to reduce the rate of overtime pay for inspectional duties to time and one-half. According to the Office Of Management and Budget (OMB) this would save $4 million in public funds. Much of the support for the bill is based on the misconception that Customs Inspectors are making triple and quadruple time, and even more, in performing overtime assignments.

Well, we can tell the Subcommittee that the facts are now available. they show that Inspectors are earning, on the average, 2.1 times the regular rate of pay on Sundays, and 2.4 times the regular rate on the other days of the week. The Customs study attributes the 2.4 rate of pay to the call-back of Inspectors who have left the work site. Such call-backs frequently occur at night and at irregular hours, taking a physical toll on the Inspector. In addition, there is often a good deal of uncompensated waiting time that Inspectors must put in, when aircraft or ships are delayed in arriving.

We are absolutely convinced that the frequent call-backs, irregular hours, and hazardous and demanding nature of an Inspector's duties fully justify the present rates of overtime pay. Moreover, these rates are not out of line with the prevailing private sector practice, with established double time premiums for call-back and night work, and where the prevailing practice is triple time for Sunday overtime and double time and one-half for holiday work. This information is based upon a survey of private sector premium pay conduted for the Office of Personnel Management's Premium Pay Task Force.

We urge the Subcommittee to reject the call for a change in the rates of overtime compensation paid to Inspectors. It would not only be grossly unfair to the Inspectors, but would seriously reduce the incentive to continue to work long hours at a time when the Service is stretched thin and lacks adequate staff.

Tariff and trade

The Tariff and Trade functions of Customs encompass the collection of duties and the administration of quotas and other trade programs. The backbone of this function consists of approximately 1,100 Import Specialists whose expertise permits accurate classification of imports under the Tariff Schedules, and proper appraisement or valuation for duty assessment purposes. By virtue of many years of service, intimate familiarity with the importing community, product lines, and Customs court rulings, as well as the technical aspects of their commodity specialty, Import Specialists have a well-deserved reputation for their expertise. Some are world-renowned in their fields, such as ceramics and antiques.

Import Specialists are in day-to-day contact with the importing community who find their knowledge invaluable in ascertaining beforehand how a particular importation will be treated, and in forestalling costly errors and disputes. During Fiscal Year 1981, Import Specialists made over 8,000 visits to importers' premises. When one considers that there are 10,000 categories in the Tariff Schedules, that products frequently fit more than one classification, and that proper classification can make the difference between duty-free entry or a 70 percent tariff, the value of this service to the importing community can be understood.

While importers consider this to be a very valuable service to their business, it more importantly allows a tremendous savings to Customs by eliminating the necessity for many rejected entries, time consuming post-entry work, and entry backlogs resulting from errors. A few hours at the importer's premises, viewing samples and establishing classifications, can save untold staff hours by permitting Customs to liquidate most entries upon receipt.

There is a large and growing imbalance between workload and resources in the Tariff and Trade activities of Customs. As shown in Table 2, the 1,150 Import Specialists on board today are fewer than the number available during 1974. Yet there will be over 5 million entries to be processed in fiscal year 1983, a 60 percent increase over 1974. This means that workload, measured in terms of the number of entries per Import Specialist, has been increasing at an annual rate of over 9 percent a year since 1974. Even allowing for a significant growth in productivity, which has increased historically at a 4.3 percent annual rate, it is clear that Customs has been unable to keep pace with the growing workload during the past decade.

A GAO report, "Assurance Needed That Import Classifications Are Accurate," issued on April 23, 1981 has documented the deterioration resulting from inadequate staff. The report states that:

"Customs Service import specialists have insufficient time and means to adequately verify Tariff Schedule classifications assigned by importers or their brokers to billions of dollars worth of foreign products entering the United States annually. Proper classification essential for determining the appropriate import duty, treating importers consistently, and compiling import data for formulating trade policies.

"Verification is hindered, in part, by a cursory entry-by-entry review of entries, a relatively large number of incorrect entry documents which are rejected and must be resubmitted, and the lack of a quality assurance program.

"The Service's problems are intensified by a relatively unchanging work force and a sharply increased workload."

The report on the note that steps essential to confirming import classifications—physical examination of the articles and, where appropriate, laboratory analysis coupled with application of legal principles and prior rulings—are often not performed. GAO found that, in a random sample of entries in three Customs field offices, up to 74 percent of product classifications were accepted solely on the basis of reviews of entry documents. Of products susceptible to laboratory analysis, only 13 of 242, or 5 percent were analyzed. From 75 to 85 percent of the products were probably never physically examined, according to the report.

In fiscal year 1983, Customs estimates it will collect over $11 billion in import duties, or $18 for every dollar spent by the Service. Clearly, hiring additional Import Specialists would not only help correct present deficiencies, but would bring in additional revenue to the Federal government. Yet the Administration's response to this problem is to propose a further reduction in the number of Import Specialists, from 1,150 in fiscal year 1982 to 1,050 in fiscal year 1983.

Import Specialists are a highly specialized group of whom the Federal government should be proud. They make our trade programs run. They assist the importing community. They make final determinations as to the admissibility of merchandise, and their expertise is thus absolutely essential to protect the national health and safety by barring entry of harmful foodstuffs, medicines, and chemicals.

The nation needs a firm commitment to increase the number of these specialized employees to the level required to meet the growing demands of trade and a rapidly expanding importing community. Based on sheer volume of entries, a minimum of 1,400 Import Specialists are required. This number must be further augmented to provide the resources needed for special trade programs, such as the General System of Preferences, anti-dumping and countervailing duties, trigger price mechanism, orderly marketing agreements, and export controls on critical technology.

Our recommendations for an alternative budget that meets Customs' most critical needs are presented in Tables 3 and 4, appended to this statement, and will be discussed later in our testimony. We strongly urge the Committee to provide the additional Import Specialists and other resources required for the sound administration of our international trade.

We would like to turn now to certain actions taken by Customs management during the past year that are bound to exacerbate an already difficult situation in the Tariff and Trade area.

Recently, Customs notified us of its decision to reduce from 69 to approximately 35 the number of entry processing locations in the country, where Import Specialists are assigned. This plan, known as centralization of appraisement, has presently been delegated to the Regional Commissioners for implementation. Many members of Congress are fully aware of this proposal because of the outcry it has produced from the importing community and municipal officials nationwide.

Amazingly, Customs has provided no rationale for this plan, no cost-benefit analysis of the supposed advantages, not even the economic impact statements on the affected communities, required by executive order. We expect that the Subcommittee will be seeking the answer to these and other questions.

In view of the increased growth of the nation's foreign trade, the expanding number of foreign trade zones, the growing number of cities seeking port of entry status, and the obvious advantages of continuous Import Specialist contact with the importing community, one would have thought that Customs management would have favored expanding the number of entry processing locations. As the Ad Hoc Committee on International Trade of the City of Kansas City has told the Congress: "Instead of removing import specialist expertise from areas where numerous importers are located, Customs should be developing it and taking advantage of this expertise. Programs such as importer inquiries and the import specialist commodity seminars should be strengthened and expanded. This is the way to meet the needs of the future."

Kansas City is a good example of the impact of the centralization plan. It has a rapidly growing port and foreign trade zone. There are 770 importing firms that use these facilities. Yet, under the Customs plan, no Import Specialists would be assigned to Kansas City and entries would have to be processed by mail at another port.

We have informed the Customs Service and many members of Congress of our vigorous opposition to the centralization of appraisement concept based largely upon the following reasons:

It would deprive the business community of an extremely valuable service, and cost many firms thousands of dollars.

It would hinder the development of foreign trade in many municipalities, and lead to lost revenue and business.

It would break down the intimate contact with the importing community that is the source of the Import Specialist's expertise.

It would lead to more errors in entry documents, more rejected entries, more contested classifications and valuations, and larger entry backlogs.

It would break down the Inspector/Import Specialist team that is vital to the smooth operation of our ports of entry. The range of commodities that an Inspector must examine is too great to acquire the expertise needed for a determination of admissibility. Consequently, the Inspector calls upon the Import Specialist, who frequently joins him in the inspection. Such teamwork is the bedrock of the entire system. It has, for example, prevented botulism-contaminated foodstuffs from entering the stream of commerce. By removing the Import Specialist from close contact with Inspectors, there is greater likelihood of a shipment being released before its inadmissibility is discovered.

It would ultimately cost the government billions in lost revenues from entry errors.

We strongly urge the Subcommittee to bar the use of appropriated funds for implementation of this plan. We would go further: we recommend that the Subcommittee report out an authorization bill with a clear statement of policy concerning the desirability of Customs' stationing Import Specialists in localities having significant numbers of importers, including mandatory assignment of a specific number of Import Specialists in proportion to the number of importers.

Finally, we would like to call to the Subcommittee's attention another ill-advised action implemented by Customs management last year. This is a Manual Supplement entitled "Selective Entry Processing Systems-Manual Operation." This Manual Supplement directs that 35 percent of all entries be processed by clerical personnel rather than Import Specialists. Of course, what is not stated is that clerical employees are frequently not available, nor are they able to properly review entry documents in many cases. So the effect of the Manual Supplement is simply to exclude the selected entries from review, which means accepting the importer's declaration as to value and admissibility.

Customs refers to this system as "manual by-pass" of those entries which are to receive a lesser degree of scrutiny. The avowed principle is that Import Specialists should spend more time on the more complex entries, those involving quota merchandise and important U.S. trade programs. We have no quarrel with this principle. It simply states that, given the huge workload, Import Specialists must decide which entries demand attention.

The problem is that Customs management has arbitrarily and without any apparent justification, chosen the figure of 35 percent, as the proportion of entries to be by-passed. No one knows what proportion of "routine" entries can be "safely" by-passed. It probably varies from day-to-day and port-to-port. Whatever it may be, the selection of such entries is best left to the judgement of the Import Specialist. For Customs management to specify 35 percent or any other figure for by-pass is to send the wrong signal to the business community. If interpreted as the number of entries to be let through with only a cursory check by clerical employees or no check at all, it would certainly lead to lost revenue and perhaps admission of unsafe products.

Customs is attempting to use this Manual Supplement to cut the size of workload. A sound principle, selecting and setting priorities for the work, is being twisted into another rationale for non-enforcement.

In its study of Customs classification mentioned earlier, GAO states that high broker error rates in entry documents was a prominent reason why Import Specialists were not selecting more entries for by-passing. This is confirmed in a Customs survey of rejected entries conducted in May 1980. The survey found that 16 percent of all entries reviewed by Import Specialists were rejected due to errors. Classification errors were the most numerous, amounting to 32 percent, while valuation errors made up another 15 percent. In addition, 549 entries covering quota merchandise were erroneously presented as not subject to quota. In commenting on this finding, the Director of Customs' Office of Trade Operations stated: "While this number does not appear to be statistically significant, the unlawful entry of 549 shipments of quota merchandise would have had catastrophic repercussions."

It should also be noted that the correction of these errors by the Import Specialists resulted in the collection of an additional $53 million in import duties. The significance of this figure is apparent when one considers that the annual salary cost for the entire Import Specialist workforce at that time was $34 million.

We believe that the high error rate in entry documents submitted by brokers and importers makes the mandated by-pass of 35 percent of all entries a foolhardy proposition. Moreover, as we have noted, such a policy will result in lost revenue and illegal or unsafe admissions. It would be far wiser for Customs management to seek the additional resources needed to cope with the mounting workload. As the GAO study indicated, effective selective entry processing systems simply do not exist at the present time. Until they are developed and tested, existing systems should be kept in place and supported.

For the reasons stated above, we recommend that the Subcommittee ensure that no appropriated funds are used for the implementation of this Manual Supplement.

Tactical interdiction

We would like to touch briefly on the Tactical Interdiction function of the U.S. Customs Service. This important area includes the dedicated men and women of the Customs Patrol who serve on air, land, and sea and whose mission is to interdict the flow of narcotics and contraband at and between our ports of entry.

The Customs Patrol is a small force—1,300 Customs Patrol Officers in all. Nevertheless, during fiscal year 1981, Customs Patrol Officers accounted for 86 percent of the value of all seizures made by Customs. The Customs Air Patrol is doing an enormous job interdicting what this Subcommittee last year called a veritable "Berlin Airlift" of drugs from Latin America to the Southeastern United States. The Customs Land Patrol has been effective against illegal immigration. The Customs Marine Patrol cooperates with the Coast Guard and Navy and other Federal agencies in blocking the use of "mother ships" and other vessels used to bring drugs into the country.

The magnitude of the problem confronting the Air Patrol in the Southeast is graphically illustrated by the Director of the Customs Air Support Program, Robert Asack, who is quoted as telling the Miami News: "What we've got is about 150 targets every day coming in, in the radar environment, and they're not talking on radio, they're not displaying a transponder code and they're not on flight plan. And they're not being challenged by anybody. . . . The only people around to challenge them are us and we can only pick six to eight a day to chase."

The fact is that, of 7,000 aerial sorties made by drug traffickers into this country each year, only 1 percent are being successfully interdicted.

In light of this deplorable situation, it is incredible that the Administration proposed a cut of 70 positions and $4 million in Tactical Interdiction for fiscal year 1983. Moreover, there are large and unspecified reductions in procurement in this budget, and only a modest increase in maintanance funds, so it is quite possible that Customs Patrol Officers will be short-changed in other ways.

We ask the Subcommittee to give very serious consideration this year to the priority that should be accorded Customs Tactical Interdiction, in light of the enormous drug and immigration problems facing this country.

The Customs Air Patrol's interdiction efforts in Florida presently has an operating capability of 5 days a week, eight hours a day. These operations are staggered for maximum effectiveness throughout the week. Nevertheless, the limited operational capability of the Air Patrol still leaves the odds in favor of the drug runner. By providing 30 additional positions for the Air Patrol, present operational capability could be expanded to seven days a week, 12 hours a day. The scope of the air threat in the Southwestern part of the country warrants such a capability, and we strongly urge the Subcommittee not only to restore the Administration's cut of 70 positions in Tactical Interdiction, but to add an additional 30 staff for the Customs Air Patrol.

We recommend that the Subcommittee confront this situation with a sense of urgency and act favorably upon the following recommendations:

Restoration of the cut imposed by the Administration;

A substantial increase in the Air, Land, and Marine Patrols;

Procurement of a second air module, such as the one presently deployed in the Southeast (an air module is a resource package consisting of aircraft, radar, and electronic gear);

Additional funds for long deferred maintenance;

Adequate operational funds to sustain a high level of activity.

Alcohol and tobacco

As the Subcommittee is aware, the Administration has stated its intention to merge into Customs, effective April 1, 1982, the alcohol and tobacco regulatory and revenue collection functions of the Bureau of Alcohol, Tobacco and Firearms (BATF).

If the Administration goes ahead with its plan, we are concerned that the mission being assigned to Customs will not be adequately reflected in the resources being provided by the Administration. These resources have been cut back substantially from the level at which they were sustained in BATF during fiscal year 1981. In effect, Customs is being given new responsibilities without the resources needed to carry them out.

Customs has stated in its budget that it will only be able to undertake minimal enforcement of the Federal Alcohol Administration Act. We urge the Subcommittee to consider allocating $11 million in additional resources for proper enforcement of the Act.

The alcohol and tobacco excises to be administered by Customs are estimated to bring in more than $8 billion in Federal revenue. This important revenue source must be protected. We urge the Subcommittee to ensure that sufficient resources are provided for this purpose.

Finally, we must ensure that the merger does not have an adverse impact on Customs' ability to carry out its remaining missions. In this connection, it will be necessary for Congress to provide $22 million in supplemental appropriations for fiscal year 1982, requested by the Administration, in order for the merger not to undermine Customs functions. While we do not know what the fate of the supplemental appropriations bill will be this session, we urge the Subcommittee to monitor the progress of this legislation and express its interest in adequate funding for the former BATF functions.

CONCLUSION: NTEU'S RECOMMENDATIONS FOR AN ALTERNATIVE BUDGET FOR THE CUSTOMS SERVICE

Tables 3 and 4, appended to our testimony, contain our recommendations for an alternative budget that will enable the Customs Service to meet minimum essential requirements in fiscal year 1983. High among these requirements are the need for additional Inspector staffing at our ports of entry, and the need for an adequate number of Import Specialists to process a growing volume of imports.

We would like to summarize these recommendations.

First, we recommend an additional 300 Inspectors and $11,553,000 above the level of the fiscal year 1982 continuing resolution. This recommendation entails restoration of the 972 position reduction, and $37,432,000 imposed by the Administration. Consequently, the total additional appropriations in the area of Inspection and Control would be $48,985,000 for fiscal year 1983.

Second, we recommend an additional 200 Import Specialists and $8,122,000 above the level of the continuing resolution. This entails restoration of 268 positions and $10,883,000 cut by the Administration. Consequently, the total additional funding for fiscal year 1983 would be $19,005,000.

Third, we recommend restoration of the 70 positions cut by the Administration from Customs Tactical Interdiction functions and an additional 30 more staff years to meet the enormous problems that exist in this area. This will prevent a RIF of 100 Customs Patrol Officers. The add-on for this restoration is $3,836,000.

In sum, we urge a restoration of Administration cuts totaling 1,310 positions (in the above functions) and $51,011,000. Going further, we would add 530 positions and $20,815,000 for essential personnel. Thus, our total recommended addition to the Administration's budget request for fiscal year 1983 is 1,840 positions and $71,826,000.

Mr. Chairman, we appreciate this opportunity to present out views on the fiscal year 1983 authorization of appropriations for the U.S. Customs Service. We will be pleased to answer any questions or provide any additional information the Subcommittee may request.

TABLE 1.—NUMBER OF CUSTOMS INSPECTORS AND TOTAL EMPLOYMENT, FISCAL YEAR 1972–83

	Total employment (average positions)	Number of Customs inspectors	Indexes: 1972=100 total employment	Customs inspectors
1972	11,116	3,754	100	100
1973	11,772	3,700	106	99
1974	11,878	4,000	107	106
1975	13,076	4,400	118	117
1976	13,380	4,300	120	114
1977	13,228	4,300	119	114
1978	13,854	4,399	125	117
1979	14,061	4,174	126	111
1980	13,820	4,165	124	111
1981	13,316	4,379		
1982 (estimate)	13,200	4,374		
1983 (estimate)	11,862	[1] 3,996		

[1] Includes 300 inspectors supported by reimbursable program.

TABLE 2.—U.S. CUSTOMS SERVICE: FORMAL ENTRIES OF MERCHANDISE AND NUMBER OF IMPORT SPECIALISTS, FISCAL YEARS 1972–1983

Fiscal year	Number of import specialists	Number of formal entries of merchandise	Entries per import specialist	Average annual workload [1] growth [2]	Required number of import specialists [3]
1972	1,174	2,866,000	2,441		1,174
1973		3,240,000			
1974	1,210	3,206,000	2,650	[4] 1956–74	1,210
1975		3,015,000		[5] 1974–1983	
1976		3,264,000			
1977		3,690,000			
1978		4,017,000			
1979	1,236	4,384,000	3,547		1,361
1980	1,219	4,374,000	3,588		1,320
1981	1.165	4,588,000	3,938		1,331
1982	1.150	4,730,000	4,113		1,328
1983	1,050	5,130,000	4,886		1,396

[1] Workload is measured in number of entries per import specialist.

[2] Subcommittee on Trade, Committee on Ways and Means, "Background Materials on H.R. 9220," July 14, 1976, p. 39, gives import specialist workload in fiscal year 1974 and average annual growth of workload, 1956–74.

[3] Assuming 4.3 percent productivity growth per annum since 1974, the number of entries each import specialist would be capable of handling in 1983 would be 2650 + (2650 × .043 × 9) = 3676. Dividing this into 5,130,000 entries yields 1,396 as the required number of import specialists.

[4] 4.3 percent.

[5] 9.4 percent.

Source: Department of the Treasury, "Justification for Appropriations" (congressional submission), fiscal year 1982.

TABLE 3.—U.S. CUSTOMS SERVICE BUDGET, FISCAL YEAR 1983, ADMINISTRATION REDUCTION FROM 1982 AND NTEU ALTERNATIVE STAFF YEARS

	Administration reduction	NTEU alternative	Total NTEU add-on
Inspection and control	−972	+300	+1,272
Tariff and trade	−268	+200	+468
Tactical interdiction	−70	+30	+100
Total	−1,310	+530	+1,840

TABLE 3.—U.S. CUSTOMS SERVICE BUDGET, FISCAL YEAR 1983, ADMINISTRATION REDUCTION FROM 1982 AND NTEU ALTERNATIVE STAFF YEARS—Continued

	Administration reduction	NTEU alternative	Total NTEU add-on
	APPROPRIATIONS (THOUSANDS OF DOLLARS)		
Inspection and control	−37,432	+11,553	+48,985
Tariff and trade	−10,883	+8,122	+19,005
Tactical interdiction	−2,696	−1,140	−3,836
Total	−51,011	+20,815	+71,826

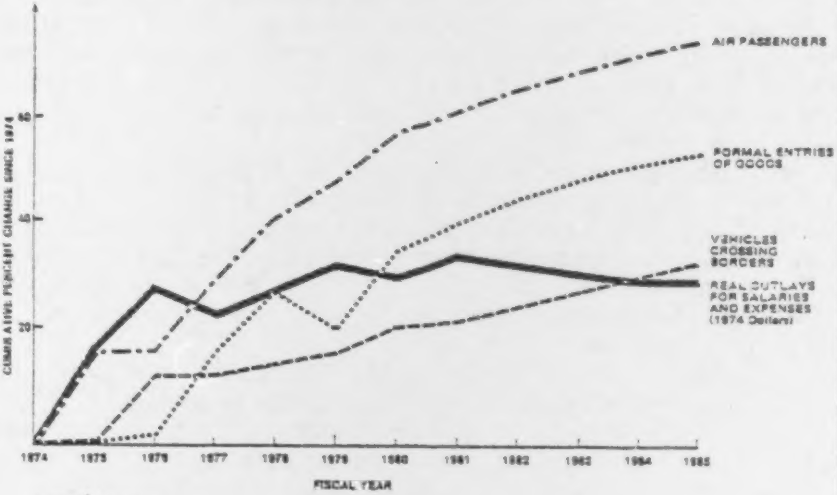
TABLE 4.—U.S. CUSTOMS SERVICE RESOURCES AND WORKLOAD, FISCAL YEAR 1983, ADMINISTRATION'S BUDGET REQUEST AND NTEU ALTERNATIVE

	Fiscal year—			
	1981	1982	1983	Difference 1982–83
1. U.S. Customs Service:				
Staff-years:				
A. Administration request (total)	13,316	13,560	12,581	−979
ATF	0	360	719	+359
Customs	13,316	13,200	11,862	−1,338
B. NTEU alternative (total)	13,316	13,760	14,421	+689
ATF	0	360	719	+359
Customs	13,316	13,400	13,702	+330
Appropriations (in thousands of dollars):				
A. Administration request	498,468	[1] 508,984	530,524	+21,540
ATF	0	15,241	31,464	+16,223
Customs	498,468	493,743	499,060	+5,317
B. NTEU alternative	498,468	519,384	602,350	+82,966
ATF	0	15,241	31,464	+16,223
Customs	498,468	504,143	570,886	+66,743
2. Inspectors:				
A. Staff-years:				
(1) Administration request	4,379	4,374	3,696	−678
(2) NTEU alternative	4,379	4,524	4,824	+300
B. Air passenger arrivals (in thousands)	24,187	27,089	30,340	+3,251
C. Total persons arriving from foreign countries (in thousands)	314,282	318,900	332,400	+13,500
3. Import specialists:				
A. Staff-years:				
(1) Administration request	1,165	1,150	1,050	−100
(2) NTEU alternative	1,165	1,215	1,415	+200
B. Formal entries of merchandise (in thousands)	4,588	4,730	5,130	+400
4. Customs patrol officers: Staff-years:				
A. Administration request	1,332	1,315	1,261	−54
B. NTEU alternative	1,332	1,315	1,345	+30

[1] Does not include pay supplemental.

EXHIBIT I

CUSTOMS WORKLOAD COMPARED TO REAL SALARY AND EXPENSE OUTLAYS (1974-1985)



* Trend projection

Chairman GIBBONS. Thank you, Mr. President, for your appearance and statement.

You state on page 24 that there is a general breakdown in the enforcement of customs laws. What do you attribute this to?

Mr. CONNERY. Primarily, Mr. Chairman, lack of staffing.

Chairman GIBBONS. What else causes the breakdown?

Mr. KLEPNER. One example, Mr. Chairman, is the ASIST program at Los Angeles International Airport and Miami International Airport. It was interesting that the Commissioner testified just yesterday that the ASIST program in both airports has demonstrated that, first of all, it has not, in Los Angeles, facilitated passenger clearance and, second, in both airports the enforcement statistics have decreased.

The ASIST program was designed to expedite passenger clearance and it was a program that, hopefully, would not result in less enforcement. Unfortunately, it doesn't appear that that is the case. Most of Customs' problems seem to relate to the fact that adequate staffing is not available and that they have not taken the necessary steps to develop technology to meet the shortfalls that there are currently in the staffing levels.

Mr. CONNERY. We also noted, Mr. Chairman, the previous witness' recommendations to accept this ASIST program.

It is our understanding—and the customs people have previously indicated that their tests have not been completed—there have been no reports written on the matter. Further, this so-called system is essentially, it seems to us, a program of noninspection. It would be very similar to, in any activity where one feels a backing up of the work, just eliminating ninety percent of the work, abandoning the effort in very substantial manner. This is what is happening, we believe, and what is causing the tremendous influx of drugs and other harmful substances into the country, the fact that a very small percentage of the passengers are even being checked.

It is common knowledge that most of the drugs are being transported—or a very substantial amount of the drugs are being transported—by body carriage, or through the luggage.

These things are not being checked to a very marked degree.

Chairman GIBBONS. You think we ought to inspect every passenger that comes through?

Mr. CONNERY. No, sir, but there should be, certainly, more attention given than is being given in the ASIST program. I have been told that 1 out of 15 or 1 out of 20 bags are being checked which, in turn, encourages the running of the risks to bring this stuff in.

So little inspection is being made. It is a very substantial abandonment of the inspection function. That is what the so-called program or system is. It is noninspection. I would submit it is a nonsystem.

Further, relative to the recommendation that positions be saved through consolidation of the various activities—the Agriculture, Customs, and the Immigration activities, it strikes us as being somewhat analogous to a situation that would require a medical expert and a legal expert and an enforcement expert that would be, say, in the positions of lawyer, doctor, and policeman and recommend to you that one person serve as the doctor, the lawyer, and the policeman.

These functions have different knowledges, different skills, and where these people think that all of these things can be embodied into one GS-9 person, we think that that is very, very impractical.

Chairman **Gibbons**. You don't think one person can look and see whether you have plants or seeds or meat or something in your suitcase, and also check you for Customs?

Mr. **Klepner**. The problem with that, Mr. Chairman, is, in addition to the expertise—

Chairman **Gibbons**. It doesn't require any expertise to see if you have an apple in your suitcase, or an orange, or something like that.

Most kids can tell the difference between an apple and an orange. A 3-year old could tell you what an orange is or an apple is.

Mr. **Klepner**. That is very true.

Chairman **Gibbons**. Why can't a 21-year-old customs inspector say well, that is an orange and you can't bring that into the United States; it is against the law. Or that is a seed, you can't bring it into the United States, that is against the law. It has to go into quarantine.

Mr. **Klepner**. The problem with that is there has to be an inspector there to do it.

Chairman **Gibbons**. Why can't a customs inspector do that rather than having to have an agricultural inspector there?

Mr. **Klepner**. What I was going to say is that if you have one person doing three functions and doing three functions properly, that does not expedite passenger clearance.

What that does is create a bottleneck with that one person, and most of the problem, in addition to the enforcement area, is the fact that when people are coming into this country from abroad, they have to wait extraordinary lengths of time in order to clear Customs, clear Immigration, and then clear Agriculture.

From what we can see, speaking with our members in the various ports, the realistic solution is not to make three people into one. The realistic solution is to provide the resources so that all of the services are adequately staffed.

Chairman **Gibbons**. I think they ought to be adequately staffed. There is no doubt about that. I have always felt, though, that there was no reason for three different agencies of the Federal Government to greet you as you get off of an airplane. One of them can only talk to you about immigration matters, which usually means opening a passport, stamping it, and going on through; the other one has to talk to you about citrus, and fruits, and vegetables, and things like that; another one talks to you about the merchandise you may have in your possession.

Why can't one person do it?

Mr. **Klepner**. It would be conceivable to have one person doing that, but, as I said, the problem is that whether or not you are creating too many expectations for one person to adequately fulfill.

I am not certain that the profile that customs inspectors work with to identify an alleged smuggler would be the same profile that an INS inspector would be looking for someone who is trying to enter the country illegally.

I don't know if the skills to do that are necessarily the same.

The other point is, if you, for example, a quarantine inspector, or a customs inspector, if you are not inspecting the luggage, then how does one make certain that illegal fruits, be it your apple, your orange, whatever it may be, are not entering the country through the luggage in addition to the contraband that the Customs Service is charged with preventing from entering the country?

Our point is that under the ASIST program, under one stop which was proposed last year, under red or green door, whatever the passenger facilitation system may be, it all means that luggage and other articles that people are transporting from abroad into this country are not being examined. That is where we feel we are leaving ourselves open as a country to increased drugs coming in and other contraband.

Chairman GIBBONS. Do your inspectors pick up any apples and oranges that the agricultural inspectors might miss?

Suppose I came to Dulles and opened my suitcase and had a couple of apples and oranges in it. The agricultural inspector wasn't there.

Mr. CONNERY. Our point is not that, for instance, customs inspector would pick up something that the INS inspector would miss.

Chairman GIBBONS. I am not talking about INS. I am talking about the agricultural inspector.

Mr. CONNERY. Or the agricultural inspector. What we are saying is that they are not being picked up at all because no inspection is being made.

Chairman GIBBONS. I understand that. I understand that.

Answer my question. Do you all pick up the apples and oranges that the agricultural people miss?

Mr. KLEPNER. Using your hypothetical apples and oranges as the extent of it, yes, I believe a customs inspector could pick that up. However—and I am not an expert in agriculture and quarantine inspection, but I believe there are probably more sophisticated types of produce, or products, or plants that would be brought into this country.

Chairman GIBBONS. Can you bring anything into this country without going into quarantine? You can't bring any plants into this country.

Mr. KLEPNER. You are not supposed to.

Chairman GIBBONS. What I am saying is, it doesn't require a lot of discretion to determine here is a plant; green, has roots on it, seeds on it; maybe even fruit on it. You try to bring it in. It doesn't take a 3-year old—a 3-year old would know better.

Can't a 3-year old tell the person, don't bring it in? Do you have to call over to Agriculture and say, hey, this fellow has an orange in his suitcase. You can't touch the orange?

All they do when they take it away is throw them in a bag and throw it in the garbage and get rid of it. They incinerate it.

I can understand why you may not be able to ask all the complicated questions an immigration inspector has. Why couldn't the customs inspector do all the work the agricultural inspector now does? Why do we have to have two of them? You have to look at the stuff anyway.

Mr. KLEPNER. I think there are certain foodstuffs and there may be certain plants that can be brought into the country.

Chairman GIBBONS. I don't know of any that can be.

Mr. KLEPNER. Maybe I violated the law. I don't know whether I should say it.

Chairman GIBBONS. Better not.

Mr. KLEPNER. When I came back from Hawaii I brought in macadamia nuts in a can.

Chairman GIBBONS. They had already been processed, and salted, and everything else. Hawaii is not a foreign country, at least it hasn't been for a while.

Mr. KLEPNER. Hawaii is not a foreign country, but you have to go through inspection when you leave Hawaii to come back to the States.

You go through an inspectional process.

There are foodstuffs that can be brought—that should not be brought into the country, that I don't know the customs inspector now has the expertise to make that designation.

Chairman GIBBONS. You are sort of playing down the intelligence of your constituency, I am afraid.

How do you all feel about the closing down of regional centers, Customs centers? The testimony yesterday was about all they do is fill out the payroll.

Mr. CONNERY. Our organization does not support that, Mr. Chairman.

Chairman GIBBONS. How about user fees? Like head taxes, like the gentleman ahead of you testified to?

Mr. SUPLIZIO. Mr. Chairman, the Customs Service's shortage of resources is so severe that almost anything that could be done to raise additional funds and assure a linkage to the appropriations process or through the reimbursability of the Customs Service for service performed to the carriers or other parties as interest, anything that could be done along that line would be a means of providing that additional staffing and resources.

So the user fees, provided they are allocated toward the budget of the Service, would be something that we would support.

Chairman GIBBONS. Any other questions?

I appreciate it very much. Thank you.

Mr. CONNERY. Thank you, Mr. Chairman.

Chairman GIBBONS. Our next witness is the AFL-CIO, Mr. Stephen Koplan.

Welcome.

STATEMENT OF STEPHEN KOPLAN, LEGISLATIVE REPRESENTATIVE, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS, ACCOMPANIED BY JOHN POWDERLY OF THE UNITED STEELWORKERS

Mr. KOPLAN. Thank you, Mr. Chairman.

With me is John Powderly of the United Steelworkers.

As the chairman knows, the steelworkers have submitted a statement for the record. We have appeared in tandem before. He is making himself available during the question period for any questions you might have.

I also have seen an excellent and detailed statement submitted by the United Autoworkers. I understand other affiliates are also preparing or submitting statements.

Mr. Chairman, I will not read the full text of my statement. I will summarize it and ask that the full text appear in the record at the conclusion of my remarks.

Chairman GIBBONS. Without objection, so ordered.

Mr. KOPLAN. Thank you, Mr. Chairman.

Mr. Chairman, the AFL-CIO is opposed to the administration's budget proposals for fiscal year 1983 that include a swift end to any possibility of a trade adjustment assistance program.

We are not here to beg for scraps from the administration's table. Rather, we urge the subcommittee to give serious consideration to reestablishing a meaningful program. Therefore, we recommend initially that the following changes be made:

First, restore the language in the test for eligibility to apply for adjustment assistance to "contributed importantly," as it was in the Trade Act of 1974.

"Contributed importantly" means that a group of workers must prove that rising imports contributed importantly to their job loss or the threat thereof and to a decline in sales or production.

These tests must be met before workers can be certified as eligible to apply for adjustment assistance. However, the Omnibus Budget Reconciliation Act of 1981 had changed this test to "substantial cause," without justification even in budget terms.

There are no guidelines to define what "substantial cause" means. Elimination of the "substantial cause" test is a necessary first step to maintaining even the skeletal remains of a trade adjustment assistance program.

I would note, Mr. Chairman, H.R. 4717, as amended in the Senate, would take care of this problem. That is presently pending over here for conference.

Second, entitle workers to training assistance which the Trade Act of 1974 promises. The administration performed radical surgery on the cash benefit side of TAA based on the argument that any future program must emphasize training, job search, and relocation.

It is senseless to require that unemployed workers prove that they have been injured, gain access to the program and then, after all the qualifications have been met, find there are either insufficient or no training funds available to carry out that side of the program.

Third, extend coverage of trade adjustment assistance to workers who work for independent suppliers of parts and services.

As of now the people who are unemployed because imports cost their jobs are generally not covered unless they are employed by a firm which makes an import-impacted end product.

Thus coverage depends not on what the worker does, but on who owns the plant. The AFL-CIO has long urged that all parts and service workers impacted by imports should be eligible for trade adjustment assistance coverage.

Fourth, exempt from the calculation of the 26-week work eligibility requirement the weeks a worker has been on workers' compensation. We also urge this exemption from the 26-week work requirement for a worker who has been unjustifiably laid off, but for which the worker is later compensated.

Fifth, change the "suitable work" standard in the current law so that workers who have received their initial unemployment compensation will not be cut off from trade adjustment assistance benefits or training if they do not accept any job at the minimum wage.

This proposal is essential if the job skills of American workers are to be maintained. We also recommend immediate restoration of the national standard of 70 percent of lost pay for measuring TRA cash benefit levels.

In addition, the AFL-CIO urges adequate funding for the Customs Service for hiring import specialists to assure that the imports which come into the United States are properly monitored.

We are also concerned that the Labor Department, the Commerce Department, and the Office of the United States Trade Representative have not received adequate funding for assuring that the directions of the Congress to the executive branch can be carried out.

In summary, the AFL-CIO believes that the impact of international trade on this economy is too important to be left in the hands of the budget cutters.

Mr. Chairman, that concludes my prepared summary. I would like to make a couple of comments, if I may.

First of all, it is astounding to us that we sit here fighting for the very life of the program that was promised some 20 years ago when at the same time this Congress could afford, for example, to give the wealthiest individuals in our country an increase in their Keogh tax deduction from $7,500 to $15,000, and cut the top tax rate for such people from 70 percent to 50 percent, regardless of whether they invest in equipment that might increase productivity or put that money into Chinese porcelain which has a better rate of return.

As we go through this tax bill enacted just last year, and see that taxpayers earning $30,000 to $50,000—and these are not according to our figures, but figures put together by the staff of the Joint Committee when the Economic Recovery Act of 1981 was considered—the taxpayers earning $30,000 to $50,000 over the next 3 years will get a cumulative tax cut of about $3,800, but a taxpayer earning over $200,000 will get a cut of about $75,000 over the next 3 years.

It is astounding that we are sitting here in this atmosphere asking for the continuation of a trade adjustment assistance program when the administration came up just last year and argued to put an emphasis on training, for example, and now just 4 months later is saying that we don't need training, there is no money basically for training; and there shouldn't be any cash benefits after July 1, 1982.

I would like to just go back a bit. I am sure the chairman is aware of this, but just to make a couple of points for the record on training, we appeared at hearings last March before this subcommittee.

I am looking at the statement at that time of William Lewis, the Administrator of the Unemployment Insurance Service. I just want to quote something that was in that statement.

He said:

> Before closing I would like to make one final point. While we are proposing to reduce the scope of the trade adjustment assistance program, we are at the same time planning to place greater emphasis on reemploying those individuals who qualify under the new standards.
>
> For example, since enactment of the 1974 act, only $5 to $16 million has been expended in any one year for training, job search, and relocation allowances.
>
> Our increased attention to these phases of the program will result in an increase of 14 times what is being expended in fiscal year 1981 for a total of up to $112 million in fiscal year 1982.

I would like to turn from that to the statement of Mr. Lovell yesterday before this subcommittee and I am quoting from page 3 of his prepared statement:

> Funds for adjustment assistance will be raised to $25 million for the remainder of the 1982 fiscal year. These funds will provide unemployed workers in 46 states with training, job search, and relocation services. This level of funding is three times higher than funding levels in the last two years.
>
> For 1983, these funds are included in the special targeted program estimate of $200 million which is proposed for separate transmittal after passage of our proposed legislation.

I turn from that to the U.S. Department of Labor's fiscal year 1983 President's budget briefing materials by agency dated February 6. I am looking at the table for training.

According to that, trade adjustment assistance training is lumped in the special targeted program, and for fiscal year 1982, the budget authority is $25 million, outlays are estimated at $20 million.

For fiscal year 1983, the budget authority is blank; there is no figure; and the outlays are $4 million. In other words, over the 2 fiscal years, the total of $25 million won't even be expended according to this estimate. That is No. 1.

No. 2—and I know the chairman, is aware of this—when we fought the fight to get any money in for training, the November 16, 1981, letter to the Senate Appropriations Committee from the Secretary of Labor said that we could get those moneys only if we agreed to take it out of another program.

[The letter follows:]

U.S. Department of Labor,
Secretary of Labor,
Washington, D.C., November 16, 1981.

Hon. Mark Hatfield,
Chairman, Senate Appropriations Committee,
U.S. Senate, Washington, D.C.

Dear Mr. Chairman: I am writing to you to express my concern about funding for training, job search, and relocation assistance for Trade Adjustment Assistance (TAA) beneficiaries in Fiscal Year 1982.

In the Administration's original March budget for Fiscal Year 1982, no funds were specifically requested for these trade activities, since these activities had previously been funded by title III of the Comprehensive Employment and Training Act. However, the Omnibus Budget Reconciliation Act of 1981 provided a specific authorization for trade training and related activities and therefore necessitates the specific funding of these trade activities within our appropriations.

In the President's September budget amendments, which reflected an across-the-board 12 percent reduction in most Department of Labor accounts, there was included an amount of $112 million in the Employment and Training Assistance account for training, job search and relocation for trade adjustment recipients. With the 12 percent reduction, this amount is reduced to $98.6 million.

In the Full Committee mark-up of H.R. 4560, the Labor appropriation bill, no provision was made for the added $98.6 million requested by the President for these trade activities. Moreover, the total for the Employment and Training Assistance account is over $100 million less than the President's request.

It is important that the Department have resources to provide training, job search and relocation assistance to those persons displaced from employment due to the impact of trade. Without specific appropriations, we are not able to provide this assistance. On behalf of the Administration I am therefore requesting that language by provided in floor action on either the Department of Labor title of H.R. 4560, or other appropriating legislation, increasing the Employment and Training Assistance appropriation by $98.6 million and earmarketing this amount for activities under the Trade Act.

I have enclosed draft language which I believe would achieve the desired results. I am requesting that you facilitate the introduction of the suggested language. However, we would have to oppose such an amendment unless offsetting reductions are made elsewhere in H.R. 4560, or such other appropriating legislation, that do not reduce any item below the amount requested by the President.

Sincerely,

RAYMOND J. DONOVAN.

Enclosure.

EMPLOYMENT AND TRAINING ASSISTANCE

For expenses necessary to carry into effect the Comprehensive Employment and Training Act, as amended, sections 236, 237, and 238 of the Trade Act of 1974, as amended (19 U.S.C. 2101), section 51 of the Internal Revenue Code of 1954, as amended (26 U.S.C. 51), sections 210, 211, and 212 of Public Law 95-250, and the Veterans' Employment and Readjustment Act of 1972, as amended (38 U.S.C. 2003A), including the purchase and hire of passenger motor vehicles, the construction, alteration, and repair of buildings and other facilities, and the purchase of real property for training centers as authorized by the Comprehensive Employment and Training Act, as amended, $3,212,728,000 plus reimbursements, including $2,001,000 for the National Commission for Employment Policy and $98,560,000 for activities authorized by sections 236, 237, and 238 of the Trade Act of 1974, as amended: Provided, That no funds from any other appropriation shall be used to provide meal services at or for Job Corps centers: Provided further, That an amount not to exceed $41,318,000 shall be made available for Native American Employment and Training Programs authorized by section 302 of the Comprehensive Employment and Training Act, as amended, from amounts provided under Public Law 96-369, as amended, obligated under sections 233(c) and (d) of the Comprehensive Employment and Training Act, as amended, and remaining unexpended.

Mr. KOPLAN. It was not any increase in budget authority that was being given. We were told we could have the $25 million for training if it was taken away from some other social program. That was the position of the administration.

The administration backed away from the $112 million figure that we had very rapidly, so I just find it astounding to read on page 3 that the administation is increasing the money to $25 million. That is just not the case.

There is another thing. We are told that workers don't want training, yet I have in my hand the committee print put together by the staff of the Committee on Ways and Means that came out on February 18, an excellent document.

I turn to page 83 of that. I see a footnote for 1981. It shows 20,362 people entered training in fiscal year 1981 and the footnote says that of that amount of people, 18,940 or 94 percent in 1981 self-financed their training costs.

I would like to know how the administration can come in and testify that people don't want to work when people who don't have jobs are going in and financing their own training, 94 percent of them.

I would like to make another observation if I can find this reference in your hearings of last year.

I remember the chairman was concerned when the proposal came up last year for cutting the trade adjustment assistance program to ribbons, about what was going to be requested this year, and you asked some questions at that time of Mr. Lewis.

As a result of that, on April 30, 1981, Secretary Donovan sent you a letter in terms of what their intentions were with this program for the future. I quote a portion of that letter:

> After the proposal is enacted into law—

we are talking about last year's changes—

> We will need a period in which to assess the revised trade adjustment assistance program to see whether there are any unforeseen difficulties and to see whether any further changes are necessary.
>
> Therefore, I would endorse a further modification of the act which would extend the trade adjustment assistance program for two years until September 30, 1984.
>
> I thank you for bringing this matter to our attention.

I wonder, Mr. Chairman, after reading this, and reading the comments of the administration yesterday showing how the program has been cut to ribbons, it is working so well now from their standpoint that they want to eliminate the thing entirely. Why are we here?

When we have this kind of an assurance from the Secretary of Labor and this subcommittee acted on the basis of this kind of an assurance last year in the Omnibus Reconciliation Act.

I thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF STEPHEN KOPLAN, LEGISLATIVE REPRESENTATIVE, DEPARTMENT OF LEGISLATION, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

The AFL-CIO appreciates this opportunity to oppose the Administration's budget proposals for fiscal year 1983 that include a swift end to any possibility of a trade adjustment assistance program. As though last year's blow to the program was not enough, the Administration now seeks to cease entitlements to weekly cash benefits effective July 1, 1982, except for those in approved training on that date.

At the AFL-CIO Convention in New York last November, the delegates adopted a policy resolution on International Trade and Investment which stated in pertinent part: "The slashing of Trade Adjustment Assistance that has resulted from the budget cuts, must be reversed. Those workers who lose their jobs because of imports should receive the 70 percent of lost pay for up to one year, and the training and relocation aid that they were promised in the Trade Acts of 1974 and 1979."

Most recently, on February 15, 1982, at the AFL-CIO Executive Council meeting in Bal Harbour, Florida, a statement was adopted that included a call for "extension of Trade Adjustment Assistance to provide adequate compensation to those unemployed because of trade, and improve training, job search, and relocation aid to those displaced workers who need such help."

We believe that the proposals incorporated in S. 1868, introduced by Senator Moynihan last year are modest steps to partially redress five of the disastrous, destructive and heartless injustices inflicted on the trade adjustment assistance program in the Omnibus Budget Reconciliation Act of 1981. We are not here to beg for scraps from the Administration's table. Rather, we urge the Subcommittee to give serious consideration to reestablishing a meaningful trade adjustment assistance program. Therefore, we recommend initially that the following changes be made:

GROUP ELIGIBILITY REQUIREMENTS

First, restore the language in the test for eligibility to apply for adjustment assistance to "contributed importantly," as it was in the Trade Act of 1974. That means that a group of workers must prove that rising imports "contributed importantly" to their job loss, or the threat thereof, and to a decline in sales or production. These tests must be met before any group of workers can be certified to apply for adjustment assistance.

The AFL-CIO has historically protested the complicated bureaucratic procedures that have been used to deny workers adjustment assistance. The tests under "contributed importantly" had been interpreted to make is arbitrarily difficult for workers to qualify.

But the Omnibus Budget Reconciliation Act of 1981 changed even this test to a stricter requirement that is even more bureaucratically complicated and subjective: A group of workers must prove that rising imports "were a substantial cause of" their job loss and the decline in sales or production in order to be certified.

Title IV of H.R. 4717, as passed by the Senate last year, amends the Omnibus Budget Reconciliation Act of 1981 by maintaining the "contributed importantly" causation standard through the end of fiscal year 1983. We urge Subcommittee approval of the Senate amendment.

There was never any justification for this "substantial cause" test in budget terms. The phrase "contributed importantly" had been put in the law in 1974 because most import-affected workers had been unable to get any of the promised trade adjustment assistance between 1962 and 1969. Only a marginal number had been able to qualify by 1974. The "substantial cause" test is, therefore, a throwback to make is possible to deny virtually all workers any promised relief under trade adjustment assistance while the program remains a part of the law.

"Substantial cause" is defined as "a cause which is important and not less than any other cause," as used in Section 201 of the Trade Act of 1974.

There are no guidelines in any body of law that define what this means. There are not even any guidelines to help the Congress know what it means.

But American auto workers know what it has meant in Section 201 of the Trade Act of 1974: Despite the fact that the entire International Trade Commission found the auto industry had been injured, the members of the ITC decided in a 3-2 vote that imports were not greater than any other cause of the injury. Thus, the auto industry and workers got no relief from imports now costing the United States jobs and production in towns and cities across the nation.

Those who are affected by import losses will, therefore, be unable to prove a case unless the "contributed importantly" standard is restored. In short, unless this provision contained in H.R. 4717, is passed, there will not be adjustment assistance for workers since it will be almost impossible to prove eligibility.

For these reasons, we believe that elimination of the "substantial cause" test is a necessary first step to maintaining even the skeletal remains of a trade adjustment assistance program.

ENTITLEMENT TO TRAINING

Second, workers should be entitled to training assistance which the Trade Act of 1974 promises. We recommend changing the current provisions of the Trade Act of 1974 to state that the "Secretary *shall* approve such training" instead of "the Secretary *may* approve such training."

One purpose of trade adjustment assistance is to help workers adjust to new jobs and to be able to get new jobs.

In 1981, the Administration performed radical surgery on the cash benefit side of TAA based on the argument that any future program must emphasize training, job search and relocation. Now it seeks to eliminate cash benefits by July 1st. The AFL-CIO opposes the decimation of the cash benefit program but certainly supports training, job search and relocation funds as preferable to long-term increases in unemployment lines.

It is senseless to require that unemployed workers prove that they have been injured, gain access to the program and then, after all the qualifications have been met, find there are either insufficient or no training funds available to carry out that side of the program.

This change is long overdue.

COVERAGE FOR SUPPLIERS OF ESSENTIAL PARTS OR SERVICES

The third provision we recommend would extend the coverage of the trade adjustment assistance program to workers who work for independent suppliers of parts and services.

This has long been a goal of those who are interested in having an effective, nondiscriminatory adjustment assistance program. This concept was passed by the House of Representatives in the last Congress, and has become an ever more important need as the inequities of the current law are becoming more evident.

The basic inequity under the law is that those who are now unemployed because imports have cost them their jobs are generally not covered by trade adjustment assistance unless they are employed by a firm which makes an import-impacted end product. Thus, the worker who is displaced by imported television sets can be eligible if his firm makes television parts and television sets. But, if the firm for which he works only makes parts for television sets, the worker is not covered. Also affected would be an auto worker, employed by an auto parts supplier. Even worse, a cafeteria worker employed by an independent food services firm in an auto plant, cannot get certified under current law even though every other worker in the plant is covered. And workers who drive the trucks to deliver cars are ineligible unless they work for the firm which is the producer of the cars.

Thus, coverage has depended not on what the worker does, but on who owns the plant. Parts and service workers should be covered under the same standards that are used for workers who are employed to make the final product.

This is a minimal change, Mr. Chairman, a change that is long overdue and which is essential to remove some of the most glaring inequities in the trade adjustment assistance program. The AFL–CIO has long urged the extension of benefits to such workers. In sum, all parts and service workers should be eligible for trade adjustment assistance coverage.

TREATMENT OF WORKERS' COMPENSATION AND BACK-PAY TIME FOR PURPOSES OF WORKER QUALIFICATION

Fourth, we urge the law be amended to address the abuse in the current requirements that the worker who is certified as eligible to apply for adjustment assistance must also have had 26 weeks of employment in the last year prior to the lay-off because of import injury in order to qualify for adjustment assistance.

This requirement was originally put into the law so that there would not be an abuse of the trade adjustment program by qualifying for 52 weeks of benefits, workers who had only worked a few weeks.

Instead, the requirement of 26 weeks employment has been used to deny benefits to workers who had worked for many years, but were injured on the job or on sick-leave or unjustifiably laid off during the last year of service.

For example, an employee with 20 years service who was injured on the job and out of work for much of the last year before the plant was shut down now receives no trade adjustment assistance benefit because of the 26-week requirement.

The same is true of an employee with high seniority who was unjustifiably laid-off for a long period during the year prior to the date of import injury and has received back pay.

We urge an exemption from the calculation of the 26-week-work elgibility requirement the weeks a worker has been on workers' compensation. We also urge this exemption from the 26-week-work requirement for a worker who has been unjustifiably laid off, but for which the worker is later compensated.

SUITABLE WORK STANDARD FOR TRA-ELIGIBLE WORKERS RECEIVING EXTENDED BENEFITS OR TRA

Fifth, the "suitable work" standard for workers who have lost their jobs because of imports should be changed, so that they will not be forced to take jobs at the minimum wage or lose their right to trade adjustment assistance benefits or training at the end of the first 26 weeks of unemployment compensation. That is the current state of the law.

Thus, a trade adjustment assistance program no longer quarantees a 52 week program.

The Federal-State Extended Unemployment Compensation Act of 1970 should again be amended by adding a new clause—a new improved definition of "suitable work" for trade adjustment assistance purposes. The new test would be "work of a substantially equal or higher skill level than the worker's past adversely affected employment" and "wages for such work at not less than 80 percent of the individual's average weekly wage for his most recent base period."

This amendment should at least help to create adjustment assistance for workers rather than to create a new group of the working poor whose jobs were lost because of the federal government's trade policy.

The AFL-CIO urges adoption of these proposals as a first step to assist workers who have lost their jobs through no fault of their own but rather because of U.S. trade policy. We also recommend immediate restoration of the national standard of 70 percent of lost pay for measuring TRA cash benefit levels.

CUSTOMS SERVICE

The AFL-CIO and its affiliates remain aware that the Treasury Department, pressed by the budget-cutters, has been cutting back proposals for funds necessary to implement U.S. trade laws There is not adequate funding for hiring import specialists to assure that the imports which come into the United States are properly monitored. As a result, consumer, safety, patents, copyright and trademark laws are not going to be enforced effectively, because there will not be enough inspectors at customs to enforce them.

This, like the trade adjustment cutbacks, potentially amounts to economic waste, as U.S. consumers suffer injuries to health, farmers suffer from diseases to plant life, and cattle, and the business community loses its patent, trademark and copyright protections, because adequately trained import specialists are not made available.

Furthermore, directions to "monitor" imports, become unrealistic when there are not enough import specialists to inspect more than one percent of the containers that are brought into the country. Requirements to establish import injury by identifying the causal connection between imports and the job loss become unfair and unrealistic if the imports are not adequately monitored. Resolutions to such problems tend to be proposals to ignore Congressional directions or to waive statutory requirements in the name of facilitating trade.

We are also concerned that the Labor Department, the Commerce Department, and the Office of the United States Trade Representative have not received adequate funding for assuring that the directions of the Congress to the Executive Branch can be carried out. The responsibilities of these agencies will effectively be left in the hands of foreign interests and the traders—regardless of the impact on jobs and production of the districts which every Representative represents.

In summary, the AFL-CIO believes that the impact of international trade on this economy is too important to be left in the hands of the budget cutters.

STATEMENT BY THE AFL-CIO EXECUTIVE COUNCIL ON INTERNATIONAL TRADE AND INVESTMENT

The recession-bound U.S. economy continues to lose jobs and production, a trend aggravated by mismanaged trade policies and practices. The U.S. trade balance suffered a record $40 billion deficit in 1981. As the world faces recession, many nations are increasing their barriers to imports of U.S. goods and further subsidizing their exports to the U.S. The Reagan Administration is ignoring these facts.

The Administration's monetary policies have brought a high value to the dollar—up 16 percent against major currencies since 1980—encouraging imports and retarding exports. These monetary policies have thus dealt a double blow—a downturn at home and a disaster in trade from added imports and slackening exports.

U.S. basic industries, already in need of revitalization, have been severely injured by the impact of expanded imports on top of the recession. Steel has suffered import penetration of about 20-25 percent of the U.S. market since last August. Auto imports in 1981 increased their share of a falling market to 31 percent in January. Apparel imports were over 33 percent of the market. Machinery and machinery parts imports caused new concern in a weakened market. With import pressure mounting, virtually every type of manufacturing and related services felt the brunt of lost orders both at home and abroad.

Instead of imports declining as they usually do in a recession, products of more than one-quarter of the manufacturing industries showed a sharp import rise in the third-quarter of 1981 over the same period the year before—these include such varied items as tires, glass, apparel, hand tools, nuts and bolts, machine tools, roller bearings, semiconductors, motor vehicle parts, canned fish, aircraft engines and spacecraft parts.

Even America's newest industries, the so-called "high technology industries," are beginning to be hurt by imports. By January 1982, the New York Times was reporting that the United States had lost its lead in computer chip technology and production of aircraft parts was expanded into closed economies—including the Peoples Republic of China.

While imports of manufactured goods rose 13 percent in 1981, exports of manufactured goods were up only 7 percent. There has been inadequate attention to the composition of exports. The dollar value of exports does not tell the full story in terms of jobs and products. For example, the U.S. exports much raw material involving relatively little labor instead of manufactured goods and processed foods which require considerable labor input.

Instead of continuing trade adjustment assistance promised to workers injured by imports, the Administration's 1983 budget proposal calls for a mere 1 percent of the 1981 outlays for trade adjustment assistance and a complete end of the program in 1984.

The only recognition of the need to act in the U.S. interest was the conclusion of the Multifibre Arrangement.

The AFL-CIO calls upon the President and the Congress to undertake a number of specific measures in the trade area:

Placement of temporary restrictions on harmful imports during the term of the recession to prevent added penetration of U.S. markets by foreign producers and a further weakening of the U.S. industrial base.

Enactment of additional domestic content laws to protect endangered U.S. industries, such as H.R. 5133, which assures the continued U.S. capability to produce autos.

Speedy and effective handling of the dumping and subsidy cases in steel, to assure the promised redress for these unfair trade practices.

Ending of the President's continued authority to negotiate further tariff reduction.

Assurance that a portion of U.S. raw material exports by processed in this country, so that export of products such as grain, logs, etc., is conditioned upon specific domestic processing.

Establishment of bilateral shipping agreements and adherence to cargo preference laws.

Extension of the "manufacturing clause" of the U.S. Copyright Law to protect against widespread losses of jobs in the printing industry.

Extension of Trade Adjustment Assistance to provide adequate compensation to those unemployed because of trade, and improve training, job search, and relocation aid to those displaced workers who need such help.

Commitment that foreign grant, insurance and loan programs, such as the Export-Import Bank, are carefully managed to safeguard U.S. interest at home and abroad. Despite defects of the Ex-Im Bank, funds must not be slashed until other countries cut or eliminate their subsidy programs. Ex-Im Bank funds and guarantees must not be extended to any Communist countries.

Aid in the development of Caribbean nations needs to be enhanced, but proposals for "one-way" free trade and additional investment incentives to U.S. firms for investing abroad should be rejected.

Vigorous enforcement of reciprocity provisions of the Trade Act must be undertaken.

The AFL-CIO believes that enforcement of the Trade Act and the fashioning of new remedies to assure a strong and diversified U.S. industrial structure are essential for America's well being.

Chairman **Gibbons**. I appreciate you bringing out so strongly and so forcefully the fact that you feel like you have been lied to.

Mr. **Koplan**. That is correct, Mr. Chairman.

Chairman **Gibbons**. Any other questions?

Mr. **Pease**. Yes, Mr. Chairman. Thank you very much.

Mr. Koplan, as I read the President's proposal, it would terminate the weekly benefits portion of TAA as of July 1st of this year, is that not correct? Is that different from the 2 years that the administration supported?

Mr. **Koplan**. It is a complete flipflop. We were told last year if this subcommittee gave the President what he was asking for that there would be a 2-year extension. That is the letter from Secretary Donovan that is in your 1981 hearing record.

This is a complete about-face. There is no justification for the about-face.

Mr. **Pease**. I appreciate your confirming that. It certainly is the way it comes across to me.

Do you have any information at all as to what the demand is for training, job search, and relocation out in the country and how adequate $25 million might be that has been designated for this year?

Mr. **Koplan**. Well, the demand increases as unemployment increases; and certainly we haven't seen that go down. It is astounding to me that one of the justifications for eliminating the program in Under Secretary Lovell's statement is that if we do, we will see unemployment go down because it is such a great incentive to get these benefits that are based on state UI that people don't even go to work.

All I can say to you is, if the statistics for 1981 show that people want jobs so badly that almost everyone who is getting training is paying for it themselves—then I think if you provide the training, it will get grabbed up as quickly as possible.

Apparently the administration at one time thought that $112 million was needed. Now we are talking about $20 million for that same year. I don't know what kind of demonstration has been made to cut that by over 80 percent when people are running in and paying for their own training to get another job.

Mr. **Pease**. Thank you. I am concerned about the $25 million being inadequate, and I also remember that $112 million figure which the administration promised specifically for job training, job search, and relocation.

In fact, my friend and colleague from Michigan, Mr. Vander Jagt, was here at the time and also was aware of that promise made by the administration.

You don't have, however, any specific figures as to by what magnitude the $25 million would be inadequate? A fourth of what is needed? A sixth of what is needed? A tenth of what is needed?

I know those figures are very hard to come by. In a sense it would be speculation. Is there any hard information at all that would help us?

Mr. **Koplan**. I certainly feel the administration's justification for its $112 million figure last year was justified. I would be willing to accept an increase now to $112 million this morning and then we could build from there.

Mr. **Pease**. My understanding is, at least in Ohio—and I would point out that we have some 800 applications for job training funds in just one office of the OBES in my district, but my undestanding is that the regulations promulgated by the Department of Labor are so restrictive that even the $25 million may not be spent this year because so few unemployed workers will be able to meet the qualifications in the regulation.

Do you have any evidence of that?

Mr. **Koplan**. I agree with your statement. I don't have figures with me, Mr. Pease. All of these things that we are dealing with this morning—and I think you are bringing this out—are just so interrelated.

For example, we heard testimony this morning about the Customs Service. The fact that Customs inspectors are being cut back substantially. I saw a figure in yesterday's testimony of Customs Commissioner Von Raab of maybe 1,500 RIF's and about 800 by way of attrition on top of the RIF's.

What does that all mean?

For example, I pick up the Federal Register of January 14. We are talking about the generalized system of preferences, for example. I see that the Department of the Treasury, the Customs Service, is publishing proposed regulations that would provide a waiver from what is called the certificate of origin for purposes of the generalized system of preferences so you won't be able to tell if the waiver is granted what country the products came from.

If you can't tell that, how do you know whether it should be coming in duty free under GSP?

If imports and trade are causing the problem in trade adjustment assistance, these problems will intensify as a result of Customs being cut back, for example, the problem is going to be magnified maybe 10 times over on the displaced workers' side as a result of imports.

If you don't have the people out there to identify it, if they are not checking things as they come through, if you don't have the staff any more, how are we supposed to be provided with these figures?

It is sort of like chasing your tail. They don't want to know what is coming in. They don't want to know how workers are being displaced by a flood of imports coming in, but yet they do not want this program any more that was designed because of trade policy.

Mr. PEASE. Thank you very much, Mr. Koplan.

Mr. Chairman, I would just like to close with a statement that I am very disturbed that the administration proposes to terminate the weekly benefits portion altogether of TRA this year after having promised to continue it for 2 years and that the administration uses as justification its commitment to treat all unemployed workers the same; that is, to have no special benefits for anybody.

We in Congress, before I was here, entered in—and under a Republican President I might add—entered into a compact with the workers in import sensitive industries. That compact was that those workers would be willing to go along with reductions in U.S. tariffs so as to encourage more imports and give consumers the benefits of the lower prices of those imports in return for some protection for the workers who got laid off—American workers who got laid off and injured.

That was the clear intent of Congress when the Trade Adjustment Act Amendments of 1974 were passed.

I think not enough time has elapsed since then to justify the Congress or the administration going back on that agreement with American workers. The program was cut back, as we all know, last year, but at least some recognition remains of that agreement made 8 years ago.

I would hate to see the Congress go along with eliminating the program altogether.

I know that there are difficulties in administering the program and finding out which industries are really impacted and which ones are not and all that sort of thing, but if that is the case, then we ought to deal with those problems and not eliminate the program and the commitment altogether.

Thank you, Mr. Chairman.

Chairman GIBBONS. I want to say to the gentleman from Ohio, Mr. Pease, I don't want to defend the Nixon administration, but they didn't want the program in 1974 and I don't remember the AFL–CIO wanting the program in 1974.

Sam Gibbons wanted the program in 1974. I sort of forced it on them. I remember you all called it burial insurance and you didn't want it. I am embarrassed that the program has been administered so lousily by both Democrats and Republicans. Maybe the problem was the legislation to begin with. Maybe the thing for us to do is to try to straighten it out, but as I say, I didn't come here to defend the Nixon administration.

They didn't want the program. I think the testimony was taken in open session and in closed session in 1974. It would show the AFL–CIO didn't want the program either. They called it burial insurance.

If I am wrong, somebody please correct me. I put it in the House bill. I remember when I was sitting right back over there. We used to sit down on the floor in those days when we marked up bills. I remember putting it in. I remember the administration opposing it. I remember the representatives of the AFL–CIO opposing it.

Somehow I got it in. I guess I was lucky that day.

Mr. PEASE. Mr. Chairman, I appreciate that recitation of the history of the bill. My understanding was that the UAW, maybe even the AFL–CIO, while not ecstatic over your bill, did not battle it with their accustomated vigor and maybe it was their lack of dedication to the task which allowed you to get it passed in the first place. You have to give some credit for that.

Chairman GIBBONS. That probably is the case.

Mr. KOPLAN. It seems to me, Mr. Chairman, that the question before us all now is whether we go on to abolish this program with no justification from the administration, just 4 short months after their 1981 amendments have gone into effect. In all of the testimony that I have read they say that from their standpoint those amendments are working well, and yet now we come back after that letter that you got from the Secretary, given no justification for their latest policy change, but we are told that we should simply accept that it should all be blown away.

Chairman GIBBONS. I will remember that.

Mr. KOPLAN. Thank you, Mr. Chairman.

Chairman GIBBONS. Any other questions?

Thank you very much.

The next group of witnesses constitute a panel. I will ask all of them to come forward.

The National Handbag Association, the Mid Atlantic Area Trade Adjustment Assistance Center, KMMCO, Inc., and Joy Footwear; Edward S. Levy, Daniel Fennel, Charles Weikel, and Humberto Lopez.

If you desire, you may put your statements in the record.

STATEMENT OF EDWARD S. LEVY, EXECUTIVE DIRECTOR, NATIONAL HANDBAG ASSOCIATION, NEW YORK CITY

Mr. LEVY. Thank you, Mr. Chairman.

I am Ed Levy, the executive director of the National Handbag Association, New York City.

I am appearing here today on behalf of the handbag industry and with the full support of my board of directors, which consists of 26 men and women who represent a complete cross-section of our industry.

They represent every price point and every conceivable type of material that is used in making handbags, wallets, belts, and other beautiful accessories.

Some of these materials are reptiles, leather, vinyl fabrics, zippers, thread, glue, and many other products. Of course, by utilizing all these different types of material, many, many American manufacturers of other industries feed off of the handbag industry in America today. Some 160 American manufacturers are active members of our very fine association and we also have some 25 or 30 contractor members and supplier members, people like Talon zipper, Coates and Clark thread, some of the finest companies in America.

Our members have plants from Rhode Island to Florida, and from New York City to California. Some of these firms do as much as 40 some million dollars up and as low as $250,000 a year.

According to the U.S. Census, there are some 400 handbag factories in the United States today. Ten years ago there were approximately 750 companies producing handbags in America, which is a decline of 47 percent.

Total employment is now estimated to be less than 20,000 workers. According to Dominic Di Paola, the managing director of our Local 1 which governs and covers all the factories in the five boroughs of New York City, his membership declined from some 9,000 workers to 5,000, which is a decline of about 44 percent, and this took place in the past 10 years, sir, just in the New York area alone.

The decline in the U.S. handbag shipments, the decline in the U.S. handbag producers, and the decline in the U.S. handbag workers can only be attributed to the dramatic increase in handbag imports.

Imports have grown from 39½ million units in 1967 to 170 million units in 1981, a 435 percent increase.

During that period of time, imports as a percentage of the domestic market, increased from 29 percent in 1981 to some roughly 80 percent.

The most important factors leading to an increase in imports are the free trade policies of our Government which recently led to the negotiated multilateral trade agreements for lower tariffs to Latin America and the Far East, which allow imports to enter the U.S. market in large quantities at very competitive prices.

The American handbag industry is down, sir, but not out. There probably would not still be an American industry today if it were not for the trade adjustment assistance program.

In the Metropolitan New York area, 21 handbag firms received financial assistance totaling $14.3 million which afforded us the opportunity to preserve some 2,325 jobs estimated to create a little over 2,175 additional jobs in the 3 years.

Most important is that hundreds of firms received technical assistance to help them adjust to the increasing import competition.

In addition, many handbag firms have obtained private financial as well as other types of assistance that would have not been provided if it wasn't for the New York TAAC center. After EDA determined imports were severely impacting the handbag industry, the National Handbag Association received in 1978 a U.S. Department of Commerce grant to fund an industrywide recovery program. This grant supplemented by cash and in kind contributions from the industry was extended for another year in 1980. The funds were used for five specific projects.

No. 1, the design of a costing and pricing accounting system. This project was successfully completed by Price Waterhouse and its How-To Manual distributed free of charge to all members of the handbag industry.

No. 2, the organization of a fashion-oriented educational program coordinated with the shoe, the scarf, the hat, the dress, the coat, the sportswear industry and the textile industry was very successful. We had a series of fashion presentations and we promoted the total look in merchandising the American way.

No. 3, an extensive marketing study was conducted on the consumer and our buyers attitudes including test marketing performed throughout the United States.

These studies determined the lifestyle of women in different parts of the country and made available to all American manufacturers.

No. 4, the development of a comprehensive export manual. That, plus export seminars, helped increase the value of handbag exports 36 percent from 1979 to 1980.

No. 5, the National Handbag Association, in conjunction with the leather goods, plastic and novelty workers union Local 1, which is affiliated with the AFL-CIO and the Fashion Institute of Technology of the city of New York established a school to train young talented people to design and make handbags. Only the influx of young people with new ideas and concepts can make the industry prosper.

This school is considered a success by all, and, of course, it is now financed jointly by our industry and our union.

I would like to get away from my submitted statement and just make a remark about that school, sir.

In the last 2 years, through FIT and our joint retraining program, we have opened jobs for 150 young, talented American designers, mostly female, a great deal minority people. We set up a free employment service for these people and after they finished their schooling in our office, we brought them in and fine-tuned their talents.

I would say some 100, 125 of these young people are now working in the industry. I think the lowest salary of these young people today is somewhere in the neighborhood of $25,000 to $75,000.

Instead of copying designs from Europe, our handbag industry is now unique in its own right. Our talented designers are now finding their own niche in the industry. There, of course, is an excitement and hope in the air, hope for the industry and hope for our workers. Technical assistance for both firms and industry as a whole must be increased. Support by this subcommittee to continue the program is essential for the survival of our 100-year-old industry.

In closing my brief statement, I would like to point out that last year, four out of every five handbags sold in America was an import. In the past 10 years, the number of U.S. handbag manufacturers declined 47 percent and the number of workers was estimated to have declined 44 percent. The benefits received by the handbag industry in accordance with the Trade Act of 1974 was greatly responsible for our survival and afforded the industry an opportunity to undertake research, marketing, educational, and financing studies to counteract the adverse effect of ever-increasing imports. The results of these studies helped stabilize domestic sales and employment.

A niche has been found for the American handbag industry, and I repeat: There would not be an American handbag industry today if it were not for the Trade Act of 1974. The handbag industry totally supports the trade adjustment assistance programs for firms and industries. We believe that increasing funding, especially for technical assistance, be provided in the 1983 budget for firms and industries as administered by the U.S. Department of Commerce. The logical budget might include only $20 million for loans, but $30 million for the all-important technical assistance is needed.

Thank you, Mr. Chairman, for the opportunity to make a brief statement regarding the importance of our Government continuing the technical assistance program. I would like to say should this program die, so will many American businessmen. Thank you.

[An attachment to the prepared statement follows:]

TABLE 1.—HANDBAG PRODUCTION, IMPORTS, AND EXPORTS: 1967, 1972, 1977–80

[Quantity in thousands of units; value in thousands of dollars]

Year	Domestic production [1]		Imports [2]		Exports [2]		Apparent domestic market		Imports as a percent of domestic market	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
1967	[3] 97,000	[3] 312,100	39,560	44,938	1,037	2,276	135,523	354,762	29.2	12.7
1972	[3] 90,100	[3] 344,400	67,180	86,890	665	1,562	156,615	429,728	42.9	20.2
1977	[4] 55,800	[5] 436,200	92,764	207,062	1,135	4,560	147,429	638,702	62.9	32.4
1978	[6] 62,700	[7] 531,500	138,892	310,382	2,240	9,570	199,352	832,312	69.8	37.2
1979	[6] 52,800	[8] 518,000	120,356	299,806	3,170	10,949	169,986	806,857	70.8	37.2
1980	[6] 53,500	[8] 559,000	143,711	350,562	4,227	15,480	192,984	894,082	74.5	39.2

[1] U.S. producers' shipments.

[2] Department of Commerce data. Imports from FT-246 and FT-135. Exports from FT-410, includes exports of parts under item 807.

[3] Based on data in "Census of Manufactures"; 85 percent of value data for both 1967 and 1972 also had quantity data. Unit value for these data was applied to remaining value data to get total quantity.

[4] Estimated based on available quantity data for plastic handbags in the 1977 census, increases in the wholesale price index for leather, and the estimated increase in average unit values of other handbags since 1972.

[5] Based on data from final 1977 "Census of Manufactures."

[6] Estimated based on increases in the wholesale price index (producer price index beginning March 1978) for "other leather and related products."

[7] U.S. Department of Commerce data in the "Annual Survey of Manufactures."

[8] Estimated by Department of Commerce in "1981 U.S. Industrial Outlook."

GROUP NUMBER I-3021—HANDBAG IMPORTS

	Month of December		January to date		
	Quantity	Value	Quantity	Value	Value 81/80
Canada	2,134	$65,385	43,176	$872,184	0.862
Guatmal	0	0	5,566	16,641	4.623
C. Rica	0	0	25	286	.817
Bahamas	0	0	719	2,605	....
Haiti	144,686	482,094	2,021,672	6,323,958	1.815
LW WW I	0	0	30	746	....
N. Antil	0	0	350	5,231	....
Colomb	26,740	344,387	394,841	4,893,345	1.178
F. Guian	0	0	36	1,455	....
Peru	360	582	1,220	12,242	.387
Chile	0	0	846	16,558	4.553
Uruguay	8,551	108,521	183,821	1,680,100	.631
Sweden	384	3,999	2,854	17,093	.948
Denmark	2,088	8,947	3,849	29,930	.312
Ireland	0	0	1,276	15,658	27.374
Belgium	0	0	2,082	9,021	1.469
W. Germ	707	44,494	18,878	615,242	1.919
Austria	0	0	191	7,158	6.454
Hungary	2,854	76,220	16,809	300,358	2.576
Poland	0	0	8,642	122,952	1.574
Portugal	0	0	283	4,066	4.205
Yugoslv	0	0	96	630	.057
Turkey	1,083	17,631	3,062	40,186	25.466
Syria	496	4,666	496	4,666	.283
Iran	0	0	42	556	1.154
Jordan	0	0	25	333	....
Yemen A	0	0	3,700	14,500	....
India	32,540	144,196	864,359	2,852,746	1.084
Nepal	0	0	960	1,128	.335
Sri Lka	0	0	4,184	2,348	.319
Laos	0	0	2,232	3,348	.214
Singapr	1,202	5,544	16,372	34,119	6.385
Phil R	302,457	592,617	2,307,054	4,248,963	1.231
So. Asia	0	0	600	1,692	....
Kor. Rep	1,109,348	4,842,908	17,344,669	71,211,543	1.183
China T	8,602,001	14,529,725	95,835,740	153,112,121	1.196
Austral	0	0	363	13,101	1.301
O Pac I	0	0	228	1,580	1.934
Egypt	0	0	7,353	51,624	.150
Ivy Cst	0	0	74	600	....
Kenya	1,725	11,704	6,377	34,730	1.351
Rep. Saf	54	9,796	837	37,371	.476
Mexico	33,979	193,581	486,929	2,708,218	1.074
Salvadr	1,500	7,805	1,584	8,511	5.414
Panama	0	0	83	332	1.145
Jamaica	0	0	20	255	.589
Dom. Rep	154,894	696,590	1,725,743	7,637,138	.921
Barbado	0	0	1,616	3,033	9.419
F. W. Ind	360	738	360	738	....
Guyana	0	0	1,468	591	.537
Ecuador	327	3,524	1,946	16,218	1.769
Bolivia	62	1,048	1,528	15,594	1.381
Brazil	55,337	432,920	766,703	6,013,218	1.268
Argent	0	0	5,101	84,825	.397
Finland	129	5,572	4,334	54,214	1.195
U. King	1,811	11,035	42,144	355,609	.745
Nethlds	0	0	4,151	16,726	1.891
France	12,050	337,966	133,002	3,685,359	1.024
E. Germ	0	0	48	886	.055
Czecho	0	0	35	1,565	....

GROUP NUMBER I-3021—HANDBAG IMPORTS—Continued

	Month of December		January to date		
	Quantity	Value	Quantity	Value	Value 81/80
Switzld	96	2,433	7,454	82,567	.769
Spain	30,047	321,310	391,206	3,389,339	1.492
Italy	335,093	3,397,051	2,621,364	41,033,900	1.027
Greece	1,372	9,481	4,904	35,010	1.179
Cyprus	0	0	461	4,605	.508
Lebanon	7,212	46,231	266,502	1,631,840	.898
Israel	0	0	2,025	2,771	.171
S. Arab	0	0	4,000	5,000	....
Afghan	0	0	2,970	9,374	.963
Pakistn	0	0	1,714	4,901	.786
Bngldsh	0	0	4,316	5,808	1.350
Thailnd	712	3,019	34,547	94,272	.871
Malaysa	988	3,044	4,905	13,106	12.364
Indnsia	500	395	10,398	20,871	40.137
Macao	61,298	102,662	460,888	1,002,364	1.270
China P	795,864	1,593,421	9,480,783	17,425,527	6.852
Hg. Kong	2,781,356	5,405,043	32,540,280	67,566,152	.965
Japan	180,922	424,434	1,610,313	5,302,452	1.650
N. Zeal	0	0	1,591	8,659	1.614
Moroc	34,049	88,399	490,396	1,372,649	.804
Camroon	0	0	140	298	....
Ghana	0	0	66	676	....
Malagas	0	0	705	409	....
Total	14,729,368	34,381,118	170,224,712	406,230,294	1.159

Chairman GIBBONS. Thank you, sir. I think that is a very interesting statement. I want to come back to it as soon as we have heard from the other witnesses.

STATEMENT OF DANIEL FENNELL, DIRECTOR, MID-ATLANTIC TRADE ADJUSTMENT ASSISTANCE CENTER, PHILADELPHIA, PA.

Chairman GIBBONS. You are a friend of Mr. Bailey's, are you not?

Mr. FENNELL. Yes, sir.

Chairman GIBBONS. He spoke to me earnestly about what you are doing. He pronounced your name correctly. I am sorry I fouled it up for you. Proceed.

Mr. FENNELL. I would like to thank you and the members of the committee very much for the opportunity to appear before you today. I am appearing on behalf of the trade adjustment assistance program for firms and industries which is enabled under chapter 3, title II of the Trade Act of 1974.

I have prepared a written statement, Mr. Chairman, and I request that it be put in the record as it has been written.

Chairman GIBBONS. It will, without objection.

Mr. FENNELL. I am the director of the Mid-Atlantic Trade Adjustment Assistance Center which I will refer to as the TAAC. We are headquartered in Philadelphia, have offices in Pittsburgh, and had offices in Baltimore until recently. We are operated by the Council for Labor and Industry, a nonprofit economic development corporation which was established by and is still directed by representatives of industry, labor, government, and professionals in strategic planning and development.

The council operated the TAAC until 1980 in conjunction with Pennjerdel—the Pennsylvania, New Jersey, Delaware Chamber of Commerce—with whom we still participate on other joint programs. This cperation enables the council and the host organizations of the other 10 trade adjustment centers around the country to work in a consulting relationship with the startlingly large number of companies whose businesses have been disrupted by the influx of foreign goods.

A January 1981 study commissioned by the Department of Commerce estimated that in the 50 States there are about 48,000 firms, employing over 4 million workers, which are impacted by imports. My home State of Pennsylvania ranks third among those States in number of firms; almost 300,000 people are employed there by 3,000 impacted firms. Your home State, Mr. Chairman, of Florida is tenth on the list; and every State represented on the Ways and Means Committee has important numbers of trade impacted firms. Although there are only 11 TAAC's, each of these States receives assistance by and through them. I have attached a list of all of those TAAC's, the names of their directors, their addresses, and the regions which they serve. While I am from the Mid-Atlantic TAAC, I am appearing on behalf of all TAAC's. They have associated themselves with my statement.

I would like to make it clear that we are not appearing to testify against the administration, but for the program. My purpose is to enlarge your perception of its activity to bring into view some of the successes it has achieved and to ask your support for continuing it. I understand that the administration has proposed the elimination of this program because the loan portfolio is weak and it is estimated that only 65 firms a year have benefited from loans and guarantees. I respectfully submit this morning that neither the program nor its accomplishments is either accurately or properly portrayed by isolating on the lending activity. The number of firms benefiting from loans is a very small percentage of firms for whom the TAAC's have worked overall.

In fact, about 100 of those loans that are still in the portfolio predated the activity of the TAAC's. Furthermore, the number of loans per year has been coming down. I believe this is a reflection of the increasing importance of the technical consulting services to which Mr. Levy has referred. It should also be noted that, although there is a high delinquency rate among loans in the portfolio, there was enough earned income to pay off all the losses and the guarantees.

I think that is important. The critical thing, though, is that there has been no account of the comprehensive level of technical assistance given to the hundreds of firms who have not received loans or sought loans from the Government. Many firms have received valuable insights and have achieved impressive turnarounds in their operations with our loans.

Over 1,100 firms have received technical assistance and that is a very, very big difference from the 65 firms that are said to have benefited from the loan program each year. Technical help has been provided in areas like strategic planning, marketing, the improvement of or the development of worker incentive systems, the installation of control mechanisms and financial forecasting techniques. By far the largest number of these firms have not come to the Government for loans. I think it is extremely important that we are clear on that matter. Besides the loan applications that have, in fact, come to the Government, there have been almost 100 financing packages that have been developed by TAAC's that have gone to other sources; and beyond that, far beyond that, there are large numbers of firms who have been able to regain and maintain banking and factoring relationships which were either threatened or had lapsed when the TAAC's began working with firms.

Related to our operations, the trade center operations, which are carried out directly with the management of individual firms, there has been an impressive industry program to which Mr. Levy has alluded. There are 20 industries which over the last 4 years have received assistance from the Department of Commerce to look at critical industry-wide problems and to prescribe remedies that could be adopted by indivdual firms. Over 2,700,000 people are employed by those industries in 26,000 firms which account for $158 billion in shipments with half again that much in added value. I have included a summary of those figures with my written remarks. Mr. Levy has indicated what has happened with the National Handbag Association. In Philadelphia, a footwear center has been established that has been so impressive to the manufacturers of footwear that it has merged with the national association and is now being supported almost 100 percent by association members.

You probably know about the work that is being done in the apparel industry which is still the second largest manufacturing employer in Pennsylvania and is an important employer as well in the Eastern and Midwestern States, to say nothing of the 200,000 workers in the West. In Congressman Schulze's district in Pennsylvania, the mushroom industry, as is shown on the table that I have attached to my written testimony, is an industry where, as imports have increased 21 percent, the employment in that industry has decreased 22 percent. The industry programs and the firm programs have worked hand in hand; and there is a significant number of workers and a significant number of firms that have benefited.

We listened with interest to the previous testimony and we are aware of the distinctions between the trade adjustment assistance program for firms and that for workers; but I think we should note that it is not as if the program for firms is not for the benefit of workers. The real difference really is that this program for firms helps workers to keep their jobs; the other helps workers who have already lost theirs.

In fact, we do not just preserve jobs; jobs have increased as well. A firm in Philadelphia that was laying off 150 employees and almost closing its doors at the time we walked into it was able to turn around with the technical assistance help we gave. It increased margins from 2 to 10 percent. It increased employment by 25 percent. And it looks like employment will increase another 50 percent. That is the kind of thing that led the Philadelphia council of the AFL-CIO to say "this is a program that really is significant for our workers. Let us get out there, talk to the firms with whom we have collective-bargaining agreements, and get them involved."

They have done that. We could not do what we have done without the labor support we have had.

I brought today—and there are attached to my statement—35 such illustrations from TAAC's around the country. They are very brief, short case histories of the kind of things that we have done with firms.

I do not think that anybody who has been seriously associated with the program, despite the kinds of reports that I could continue to make, would say that it has all been a rosy picture. There is no question that mistakes have been made; but, unusual among Government programs, this is a program where, when mistakes have been made, they have been corrected. As recently as last year, the move to ITA led to very significant improvements. Some of those were due to changes that you, in your wisdom, legislated last year. Other improvements have come through operational changes.

For example, there is a comprehensive adjustment plan procedure that has been working well to pinpoint turnaround strategies for firms. No firm comes in for financial assistance until it has been examined very closely and its weaknesses and the strengths have been assessed. After that, perhaps, financial assistance might be merited, but even then it is a covenant in the lending agreement that assistance by a TAAC will continue. You have made significant improvements in the loan guarantee area, and that has made our approaches to commercial sources of financing much easier.

I would like to give you an indication of how well the firms are receiving this program. We are more comfortable with them, and, for the first time, I think, they believe the Government knows what it is doing. Recently, there was a random sampling by an independent evaluator of approximately 70 firms throughout the country which had worked with TAAC's. By far the largest number of these indicated they were receiving timely assistance, it was significant in their turnaround, and they were able to do things they hadn't thought of before.

In addition to those 70, I have received just this past week the names of about 250 firms who have been in contact with us who have said "we have heard about what is likely to happen to this program. We are concerned. We are interested in the program. We are concerned about its continuing." Those firms, I would estimate conservatively, represent about 30,000 employees. These are just the ones that have contacted us recently.

I have included the names of some of those firms with my written statement. I have others that came to me late that I was not able to put with my statement, but which I will make available to the committee afterwards.

Mr. Chairman, members of the committee, the trade adjustment assistance program for firms and industries which you created is unique in this country and perhaps among developed nations, too, in stimulating a positive adjustment to the impacts of international trade. It can be one of the most effective such programs ever legislated. Nationwide, a team of experts has been assembled, a body of knowledge has been created, firms have been strengthened. We are right at the cutting edge of genuine techniques for responding to firms in periods of economic decline, techniques which, by the way, are only just now being examined in serious academic centers. On the micro-level, we are there on the firing line with operating companies.

We support the President's desire to have America producing, competing, fueling its own growth through investment and creativity. We support and are committed to a strong and healthy industrial base in this country; but we are concerned that this industrial base is weakening, and, in many cases, has dangerously eroded. We are experienced in positive adjustment strategies. We know that if improvement is boldly sought, many firms which are not competitive now can become so. As a matter of fact, some have not only learned to successfully compete with imports, but have become exporters in their own right. We think that is a significant thing to continue to encourage.

On the basis of this record, we think the program should continue. It will go out of business if the zero budget proposal eliminates this plan in fiscal year 1983. We know that over 80 percent of the jobs in this country are created and maintained by small businesses. If this program does not continue, many of these firms will not receive the positive help that they have demonstrated they very desperately need; and more importantly, that they can use to very good advantage.

This adjustment assistance is not available now and certainly will not be available later through any other legislation than what you have enacted. This program was initiated by this committee, put into law as the Trade Act of 1974. Although the idea had predated that, going back to 1962, coincident with the Kennedy round and GATT. This act is the first serious attempt to do anthing with injured firms. Yet, even during the years between 1974 to 1978 the program was not aggressively pursued. As these TAAC's have developed—and they have been developing for about 3 years—the program has matured. The kind of serious work that firms are deeply engaged in now is markedly different than what went on before; and those improvements can only continue.

Let me emphasize what I am sure you know: that chapter 3 of title II of the Trade Act which provides adjustment assistance for firms and industries is authorized to be in force until September 30, 1983. The Congress has decided that firms and industries that have been harmed by imports shall be entitled to apply for technical assistance in carrying out their adjustment, at least through fiscal year 1983. The proposed budget would certainly deny this.

The elimination of this program is said to be consistent with the Government's move away from subsidy programs and toward the economic recovery program, a plan that is supposed to address the "real problems associated with deteriorating economic conditions."

In our judgment, this trade adjustment assistance program is not a subsidy program nor is it exclusively, or even primarily, a loan program, although loan activity has been an important adjunct and continues to be. There is probably no more pragmatic effort in or out of Government which addresses so directly what the administration calls "the real problems associated with deteriorating economic performance" in specific companies. It would indeed be tragic, Mr. Chairman, if the program were to terminate at this point.

We ask that you restore it for fiscal year 1983. The authorization which you recommended in fiscal year 1982 has already been cut by 44 percent during the course of the year. The $50 million approved by the House last spring was reduced to $44 million through a House-Senate conference in the fall. The main part of that came out of technical assistance. The amount was further reduced after that to $35 million. That reduction cut both technical assistance and loan authority; and now I understand that the administration is reprograming the fiscal year 1982 budget to $28 million.

We believe there can be a program for $30 million, although it will be more limited than the $50 million program, not only in loan dollars but in what is really terribly important, the technical consulting service. You have created a program that is effective, a program that makes sense—and I might say dollars and cents. We believe that for the number of firms and workers involved, the results achieved, and the work that is still to be done, that this is not an expensive proposition, quite the reverse. The program is needed. Please do not abandon it at a time when it is realizing the very promise of your vision. Thank you, Mr. Chairman.

[The prepared statement with attachments follows:]

STATEMENT OF DANIEL FENNELL, DIRECTOR, MID-ATLANTIC TRADE ADJUSTMENT ASSISTANCE CENTER, PHILADELPHIA, PA.

Mr. Chairman, my name is Daniel Fennell and I would like to thank you and the Subcommittee members for the opportunity to appear before you today on behalf of the Trade Adjustment Assistance Program for firms and industries which is enabled under Chapter 3 of Title II of the Trade Act of 1974. I am the Director of the Mid-Atlantic Trade Adjustment Assistance Center which I will refer to as the TAAC. We are headquartered at One East Penn Square, Philadelphia, Pennsylvania and also have offices in the Investment Building, 239 Fourth Avenue, Pittsburgh, Pennsylvania. Until November of 1981,we had an office at 210 North Charles Street, Baltimore, Maryland. The TAAC is administered by the Council for Labor and Industry, a private, non-profit, regional economic development corporation which was established and is directed by representatives of industry, labor, government and professionals in strategic planning and area development. The Council operated the TAAC in conjunction with Penjerdel, the Pennsylvania, New Jersey, Delaware Chamber of Commerce, with whom we still participate on other joint programs, until April, 1980.

The TAAC enables the Council, and the host organizations of ten other TAAC's situated throughout the country, to work intensively, in a consulting relationship, with a startingly large number of companies whose businesses have been disrupted by the influx of imported products. A January, 1981 study commissioned by the U.S. Department of Commerce has estimated that in the 50 states and District of Columbia there are more than 48,000 firms employing over 4,000,000 people in industry sectors impacted by imports. Our headquarters state of Pennsylvania ranks third in the number of people employed by such firms: 600,000 people are employed there in 3,000 impacted firms. California and New York rank number 1 and 2 in affected firms; Illinois is fourth, with figures very similar to Pennsylvania's. Ohio, Texas, Massachussetts, Michigan, New Jersey, and Indiana all have more than 1,000 affected firms and every state represented on the Ways and Means Committee has,in proportion to its manufacturing population, significant numbers of firms and employees whose markets have been eroded by imports. The Chairman's home state of Florida ranks 10th in the number of affected firms with nearly 90,000 people employed by them. Minnesota is 15th in number of firms, Tennessee 17th, Georgia 19th and Oklahoma is right in the middle, 27th in number of firms: South Carolina is close behind. If I were from Arkansas or Louisiana, I would be interested in the close to 300 firms in each of those states which make them 33rd and 34th on the list; and Hawaii's 41st place would remind me that the beautiful islands do not only draw tourists but are increasingly attractive as a marketplace for imported goods, as well.

Although there are only eleven TAAC's, service is provided by them to firms in every state. My own center, for example, provides consultant services and management assistance for firms in 5 states: Pennsylvania, Delaware, Maryland, Virginia, and West Virginia. TAAC services are paid for both by funds from the International Trade Administration and by fees from assisted firms who pay at least 25 percent of chargeable costs. Although each TAAC is an independent organization and is not a part of the Federal Government, we work cooperatively with the Office of Trade Adjustment Assistance, which is a part of the International Trade Administration in the Department of Commerce. I have attached a list of all the TAAC's, the names of their Directors, their addresses and the regions which they serve. While I am from the Mid-Atlantic TAAC, my remarks relate to all of the TAAC's and each of those Centers has agreed to my statement.

I would like to make it clear that I am not testifying against the Administration, but for the program. My purpose is to enlarge your perception of its activity, to bring into view some of the successes which it has achieved, and to ask your support in continuing it.

I understand that the Administration has proposed to terminate Trade Adjustment Assistance for firms and industries because the loan portfolio is weak and only 65 firms per year have benefitted from loans and loan guarantees. I respectfully submit that neither the program nor its accomplishments is either accurately or properly portrayed by isolating on the lending activity. The number of firms benefitting from loans is a small percentage of the firms with whom TAAC's have worked. Furthermore, about 100 of the loans in the portfolio, nearly one-third of the entire portfolio, were made before TAAC's existed, the number of loans per year has declined steadily since fiscal year 1979 (the amount closed in 1981 is 46 percent of the 1979 figure), the screening of firms and scrutiny of loans has tightened during that period, and, last year, the Congress further strengthened the loan provisions of the Act. It should be remarked, as well, that even with the deliquency rate that has been experienced, the government has not lost money on its loans. In fact, for the whole PWEDA portfolio (of which Trade Act Loans have been a part) there is a net plus balance of approximately $5,000,000. An important development in the financing activity of the program has been its closer linkage with technical assistance. This has meant that loan resources and technical consulting resources are employed in tandem. As a result, business objectives are more attainable, and loans are more secure, closely tied to feasible recovery steps in a strategic turnaround plan.

However, there has been no account of the impressive nature and level of technical consulting help and the hundreds of firms who have not received loan assistance, but who have gained valuable insights and adjustment directions from the consultants provided by or through the TAAC's; nor have the industry association grants, which have gone for strategic examination of 20 key sectors, been described.

According to an independent evaluator of the program, while approximately 75 EDA loans were closed during FY 1980, the second year in which TAAC's operated, over 1100 firms received technical assistance form TAAC's. A substantial number received professional consulting assistance in such areas as production and manufacturing processes, development of incentive programs for workers, strategic marketing and management counseling, installation of control systems and financial forecasting techniques. By far the largest proportion of these firms have not come to the government for loans. As you know, Congress, which established the loan feature of the Trade Act, also established the government as the lender of last resort. In doing so, it accepted the risks associated with such a provision. However, many firms who originally thought that their principal need was a government loan have been shown by the TAAC's that this was not the case. Often, necessary cash flow and working capital has been generated through efficiencies in inventory turns, scheduling and loading, and more effective pricing. Many firms have been able to re-enter commercial financial markets after they strengthened their operations and controls. Besides the loan applications which have come to the Government, we estimate that TAAC's have assisted in obtaining nearly 100 loans from non-Federal sources. I know that even more firms than that have been able to maintain banking and factoring relationships which were threatened before TAAC assistance began. In our TAAC area we believe there have been 51 firms who did not get Federal financing but who were able to regain or maintain other lending relationsips because of the plans they had put into place. In one instance, a

$500,000 loan through TAAC helped to leverage a $17,000,000 package from other sources.

Related to the operations of the TAAC's, which work directly with management of individual firms, the Office of Trade Adjustment Assistance has, for 4 years, conducted a program to develop practical remedies for industry-wide problems in critical sectors. To date, there are twenty industries which have benefitted from these examinations and the action strategies which have emerged and are still emerging from them. These industries, each heavily hit by imports, collectively employ over 2,737,000 people, embrace 26,348 firms, and account for $158,445,000,000 a year in shipments and $77,684,000,000 added value. I have included a summary of figures for these nineteen industries as part of this statement. The recipient of the twentieth grant, the Gulf States Fisheries Foundation, represents an industry segment peculiar to its area. Its figures have not been presented with the others.

Mr. Ed Levy, the Executive Director of the National Handbag Manufacturers Association has testified about the positive effect this program has had on the handbag industry. In Philadelphia, a footwear center has been established which is so well-regarded by shoe manufacturers that it has merged with the National Association in that industry and is now being supported almost 100 percent by the industry itself with little need for further Government help. Through the industry program, the apparel industry, still the second largest manufacturing employer in Pennsylvania and a key employer in the North, Southeast, Midwest and West has developed techniques for improved productivity and technological innovation. The mushroom industry, important in Congressman Schultz's district, is an illustration of a sector in which as imports have increased by 21 percent, employment has decreased by 22 percent.

These efforts are not palliatives for declining constituencies but serious, hard-nosed approaches to regaining competitive positions. The industry program and the program for firms complement one another. Together, they have reached a significant number of firms in labor intensive industries which, cumulatively, are large employers and can be tough competitors.

We are well aware of the distinctions between this Trade Adjustment Assistance Program, which is operated by the Department of Commerce, and the Trade Adjustment Assistance program for workers which is operated by the Department of Labor. The President distinguished between them in his Economic Recovery Program last year. It should be noted however, that assistance for firms and industries benefits workers, too. The real difference is that the program for firms helps workers to keep their jobs, the other program helps those who have lost their jobs.

Successes with firms do not only preserve existing employment in a company, but sometimes increase it as well. This is the reason that the Philadelphia Central Council of the AFL-CIO has recently sent a letter to all of its participating unions urging them to bring the program for firms to the attention of companies with whom they have collective bargaining agreements.

We are pleased to be involved in a program that does so much for businesses and workers with the attendant benefits to the community. We see the results everyday. One firm with whom we worked was on the verge of closing its doors, letting 150 workers go. Our consultants diagnosed operating inefficiencies, installed a new costing system, laid out the plant more efficiently. created an incentive system for workers, and developed comprehensive marketing and management information programs, tailored to operations. This firm subsequently applied for loan assistance, but not until its house was in order. Although it has not closed yet on this loan, already 150 jobs have been saved, operating margins have increased from 2 percent to 10 percent, with a prospect of doubling that, employment has increased by 25 percent and is likely to expand by another 50 percent beyond that. Another one of the firms we are working with tripled sales while TAAC was diagnosing its problems and establishing remedies. There was no loan, just a re-examination of markets and operations. The firm, Gaines Manufacturing, in Gaines, Pennsylvania, attributes its expansion exclusively to the work of TAAC. These are not isolated examples. The March 1982 issue of Inc. Magazine reported under the heading "Smart TAACtics" on assistance to Gillette Industries, a Wisconsin manufacturer of down outerwear. Three years ago the firm was facing fierce competition from Chinese imports. "With our production costs at $5 an hour, compared to 25¢ an hour for goods produced in China, it's easy to guess who was going to win," said company president Terry Gillette. With assistance from the Midwest Trade Adjustment Assistance Center, Gillette Industries was able to research its options and now produces a line of designer fashions not threatened by overseas competition.

I have included with my statement 37 additional illustrations of the kind of operational improvements which TAAC's have catalyzed. I would like to have them incorporated by reference in my testimony. These few, short case histories from each TAAC area will give you an indication of what is being done for the many more employers and employees for whom we work.

I do not think that anyone seriously related to the program would suggest that it has all been a rosy picture. Mistakes have been made. It has not always been easy to move from idea to actuality or from prescription to practice. However, when mistakes have been made, they have led to correction. I would venture that this is one of the few Federal programs of this size and complexity that has conducted serious, independent evaluations for the primary purpose of identifying successful approaches and effecting improvements within the program.

The move to the International Trade Administration, for instance, was accompanied by important improvements. Coordination of technical assistance is now centered in Washington rather than diffused through six regional offices. I am not an unflinching advocate of centralization, except when it represents efficient streamlining, concentrated effort and consistent application of policy. That is the case here. In the regions, trade assistance was one among many responsibilities of regional offices. It often got less attention than was needed from them. There were sometimes long delays, differing guidance, inconsistent direction. Now we get quick answers - even if we do not always agree with the answers. The Office of Trade Adjustment Assistance has sought the insights of TAAC's in re-fashioning the program, and has acted on these insights. There is greater compatability of view and a much closer working relationship than there was before.

Together, we have refined an adjustment plan procedure which has been remarkably effective in focussing on a logical turn-around for firms. Through the TAAC's, a firm does not file for financial assistance unless a diagnostic survey has examined its strengths and weaknesses and a plan which builds on the strengths and redresses these weaknesses has been crafted. Financial assistance must support realistic stages in a feasible plan. If loans or guarantees are approved, continuing assistance from a TAAC is a covenant in the agreement. To keep a loan, firms must meet the milestones and indicators which are part of every plan. I have already given an example of a firm for whom financial assistance was not possible until after internal readjustments were achieved first.

Within the past year, the Office of Trade Adjustment Assistance has given us more useful guidelines and procedures for developing assistance plans, carrying out the program, and counselling firms. The firms themselves have more confidence in us and more confidence that the Government knows what it is doing.

Based upon responses from approximately 70 client firms selected at random from all the TAAC areas by an independent evaluator, we may conclude that:

- TAAC assistance has been responsive to the most important needs of firms,
- A majority of the firms contacted are making substantial progress towards a business turnaround,
- The vast majority of the clients contacted stated that the quality of technical assistance rendered by the TAAC's and/or their consultants has been excellent and has had a positive impact on the operation of the firm.

Besides those 70 firms, I am providing the names and addresses of approximately 350 client firms from all parts of the country who in the last several weeks have expressed their concern for the program.

Mr. Chairman and Members of the Committee, the Trade Adjustment Assistance Program for firms and industries which you have created is unique in this country, and perhaps among other developed nations too, in stimulating a positive adjustment to the impacts of international trade. It can be one of the most effective such programs ever legislated. Nationwide, a team of experts has been assembled. A body of knowledge has been created. Firms have been strengthened. We are at the cutting edge of genuine techniques for responding to firms in periods of economic decline, techniques which, on the micro-level, are only now being studied in serious academic centers.

We support the President's desire to have America producing, competing, fueling its own growth with investment and creativity. We support and are committed to a strong and healthy industrial base in our country. We are concerned that this base is weakening and, in too many cases, eroding. We are experienced in positive adjustment strategies and we know that if improvement is boldly sought, many firms which are not competitive now can become so. Some have not only learned to compete with imports in this country, but have become exporters as well.

On the basis of its record, we think the program should continue. But it will go out of business if the Administration's zero budget proposal eliminates the Trade Adjustment Assistance program for firms and industries in fiscal year 1983. We know that over 80 percent of the jobs in this country are created by small businesses. If this program does not continue, many of these firms will not receive the positive adjustment help they have demonstrated they desperately need and can use to good advantage. This adjustment assistance is not available now and will not be available later from any other source than the legislation initiated by this Committee and enacted into law as the Trade Act of 1974.

Let me emphasize that Chapter 3 of Title II of the Trade Act, which provides adjustment assistance for firms and industries, is authorized to be in force until September 30, 1983. The Congress has decided that firms and industries that have been harmed by imports shall be entitled to apply for financial and technical assistance to carry out plans for their adjustment. The proposed budget would deny this assistance at the very time that imports are up, economic indicators are down and alternatives are fading.

The elimination of the program for firms is said to be consistent with the Government's move away from subsidy programs and toward a comprehensive economic plan to address "the real problems associated with deteriorating economic performance."

In our judgement the trade adjustment assistance for firms is not a subsidy program, nor is it exclusively, or even primarily, a government loan program. There is probably no more pragmatic effort, in or out of the Government, which addresses so directly "the real problems associated with deteriorating economic performance." Last year, the program was not only recognized as consistent with the President's Economic Recovery Program, it was the single program removed from the Economic Development Administration (EDA) and placed in the International Trade Administration (ITA) in order to preserve it. One of the staff of the President's Special Trade Representative (who is no longer with that office) remarked to me last year that the program was unique in the kind of work it did for firms and, perhaps more importantly, the kind of work it stimulated firms to do for themselves. The staff member had reached this judgement after visits to firms who had participated in the program. I can understand that if this were a "give-away" program with merely short term or ameliorative purposes, it would be antithetical to the thinking of the Administration. In fact, however, the capacity-building which firms have achieved accords with the President's own approach to economic recovery. When President Reagan recently addressed the World Affairs Council in Philadelphia, he used the analogical distinction between teaching a man to fish as opposed to giving a man a fish to describe his view of the Government's role in the economy. He stressed that it was far better to "teach a man to fish", so he could be self-sustaining than to create a system within which he would remain dependent.

This program teaches a firm to fish. It is not a give away scheme, nor an entitlement program, nor an artificial support system; and we, its advocates, are hard-minded businesspeople, consultants, and practioners. With others, we believe that the program can increase the productive efficiency and competitive position of American manufacturing firms, develop the technical capacity of American producers, and generate new products and markets for these American goods. Overall, the program contributes to the expansion of an efficient industrial base directly serving American Trade Policy.

It would be indeed tragic to terminate the program at this point. We ask that you restore the program for fiscal 1983. The authorization which you recommended for fiscal 1982 has already been cut by 44 percent during the year: The $50 million approved by the House last spring was reduced to $44 million through House-Senate Conference in the fall. The main part of that cut came from technical assistance. The amount was further reduced, after the President's veto, to $34 million. Those cuts affected both technical assistance and loan authority. I now understand that the Administration is reprogramming the fiscal 1982 budget to $28 million. We believe there can be a program for $30 million, although it is more limiting than at $50 million not only in loan dollars, but also in levels of specialist consultant activity.

You have created a program that is effective. We believe that for the number of firms and workers involved, the results achieved and the work still to be done that this is not an expensive proposition. The program is needed. Do not abandon it at a time when it is realizing the promise of your vision.

TRADE ADJUSTMENT ASSISTANCE CENTERS

Mid-America TAAC
Brenda Perciful, Director
University of Arkansas
Industrial Research and Extension Center
P.O. Box 3017
Little Rock, AR 72203
(501) 371-1971

Area Covered: Arkansas, Iowa, Kansas, Louisiana, Missouri, Oklahoma, and Texas

Mid-Atlantic TAAC
Daniel Fennell, Director
Suite 1400
One East Penn Square
Philadelphia, PA 19107
(215) 568-7740

Area Covered: Delaware, Maryland, Pennsylvania, Virginia, and West Virginia

Mid-West TAAC
Hiraim Whitcomb, Director
ILT Research Institute
Ten West 35th Street
Chicago, IL 60616
(312) 567-4774

Area Covered: Illinois, Indiana, Michigan, Minnesota, North Dakota, Ohio, South Dakota, and Wisconsin

New England TAAC
Blanche Greenhill, Director
Suite 620, Statler Office Building
20 Providence Street
Boston, MA 02116
(617) 542-2395

Area Covered: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont

New Jersey TAAC
John Walsh, Director
CN 990
200 S. Warren Street
Trenton, NJ 08625
(609) 292-0360

Area Covered: New Jersey

TRADE ADJUSTMENT ASSISTANCE CENTERS
(Continued)

New York Metro TAAC
Paul Radow, Director
17 John Street
Suite 500
New York, NY 10038
(212) 964-1213

Area Covered: New York City, Long Island, and Puerto Rico

New York State TAAC
William Williams, Director
4600 Old Vestal Road
Binghampton, NY 13903
(607) 729-2201

Area Covered: New York State (except New York City and Long Island)

Northwest TAAC
Bill Lotto, Director
1218 Third Avenue
Room 618
Seattle, WA 98101
(206) 622-2730

Area Covered: Alaska, Idaho, Montana, Oregon, and Washington

Rocky Mountain TAAC
Bill Scott, Director
3505 Austin Bluff Parkway
Suite 310
Colorado Spring, CO 80907
(303) 594-9449

Area Covered: Colorado, Nebraska, New Mexico, and Wyoming

Southeast TAAC
Hardy Taylor, Director
Georgia Tech Research Institute
Engineer Experiment Station
Georgia Institute of Technology
Atlanta, GA 30332
(404) 894-3858

Area Covered: Alabama, Florida, Georgia, Kentucky, Mississippi,
North Carolina, South Carolina, and Tennessee

TRADE ADJUSTMENT ASSISTANCE CENTERS
(Continued)

Western TAAC
Radford King, Director
University of Southern California
Denney Research Building
University Park
Los Angeles, CA 90007
(213) 741-8427

Area Covered: American Samoa, Arizona, California, Guam, Hawaii, Nevada, and Utah

SUMMARY OF ECONOMIC ACTIVITY
IN INDUSTRIES ASSISTED
BY DEPARTMENT OF COMMERCE INDUSTRY PROGRAM

	Industry	Value of Shipments (Million $)	Value Added (Million $)	Total Employment (000)	Number of Firms	Imports as % of Total Consumption	Compound Annual Rate of Change		Major Producing States
							Value of Imports	Total Employment	
1.	Footwear Non-Rubber	683	406	22	192	50.2	26.0	(1.3)	PA, MI, MA, TN
2.	Luggage	744	364	16	298	28	37.0	(1.2)	New Eng; Mid-Atlantic; CO
3.	Leather Goods	2,017	532	18.5	465	11.5	18.1	(3.8)	MA WI NY NJ PA CA
4.	Steel	39,396	14,059	429	1,193	16.6	10.0	(1.8)	East; North Central
5.	Textile Machinery	1,190	675	26	638	46.9	13.3	(2.2)	Southeast & Northeast
6.	Costume Jewelry	955	550	26.7	847	15.4	45.0	(2.6)	RI NY MA NJ CT CA
7.	Consumer Electroncis	7,847	3,256	84	581	47.0	18.4	4.0	IL CA PA VA
8.	Stainless Steel Flatware	560	305	9.1	258	23.5	19.7	(1.0)	MA CT NY IL
9.	Red Cedar Shakes & Shingles	319	137	6	565	48.0	46.9	(14.0)	OR WA CA
10.	Pipe Fittings	8,125	4,830	114	902	8.6	14.0	2.2	OH IL PA TX
11.	Apparel/Textile	87,379	36,836	1,616	18,064	10.8	26.5	(1.3)	Southeastern; Mid-Atlantic
12.	Paper Machinery	27,300	12,300	203	646	11.4	15.6	.8	GA AL LO WI OR ME
13.	Vitreous China	187	152	7.3	28	50.1	19.0	6.2	PA WV NY NJ OH CA
14.	Earthenware	106	78	4.8	23	62.4	18.2	(5)	PA WV NY NJ OH CA
15.	Work Gloves	377	150.8	14	110	31.5	21.5	(39)	MI MN WI

SUMMARY OF ECONOMIC ACTIVITY
IN INDUSTRIES ASSISTED
BY DEPARTMENT OF COMMERCE INDUSTRY PROGRAM

Industry	Value of Shipments (Million $)	Value Added (Million $)	Total Employment (000)	Number of Firms	Imports as % of Total Consumption	Compound Annual Rate of Change		Major Producing States
						Value of Imports	Total Employment	
16. Industrial Fasteners	4,200	2,496	68	500	50	15.0	(7)	OH IL PA TX
17. Handmade Glass	95	54	45.9	325	26.4	25	(29)	OH PA WS SC
18. Mushrooms Canned/Fresh	358.8	178.7	8	527	40	21	(22)	OH CA MI WA PA (50%)
19. Handbags	648	324	18	186	41	24.6	(4)	NYC
TOTALS	158,445	77,684	2,737	26,348				

Sources 1977 Census of Manufacturers, Department of the Census; Bureau of Labor Statistics

MID-ATLANTIC TAAC

LIST OF FIRMS

Pennsylvania

Microsonic Trading Corporation
529 Spring Garden Street
Philadelphia, PA

Atwater, Inc.
625 Main Street
Plymouth, PA

Belmont Manufacturing
211 North 13th Street
Philadelphia, PA

Delaware Alloy Forge
2300 Tioga Avenue
Philadelphia, PA

Oxford Corporation
135 North Fifth Street
Oxford, PA

Wallace Leisure Products
31st and Jefferson Streets
Philadelphia, PA

Oxford Royal
Route 79 G
Kelton, PA

A. E. Nelson
34 Baltimore Avenue
Wilkes Barre, PA

Wyoming Valley
237 Old River Road
Wilkes Barre, PA

Print Fashions, Inc.
Ninth and Linden Streets
Bethlehem, PA

Family Garment Company
324 East Locust Street
Scranton, PA 18505

Nachman Industries
(D/B/A Flash Trimming Co.)
801 Arch Street
Philadelphia, PA

London Knitting Company
3799 Jasper Street
Philadelphia, PA

Wexler Knitting Mills
1309 Noble Street
Philadelphia, PA

Lesco Sportswear Company
422 Park Avenue
Williamsport, PA

Cawley Stove Company
27 North Washington Street
Boyertown, PA

Charter Apparel, Ltd.
361 Gordon Street
Allentown, PA

Vinnie Blouse Company
Rt. 512, Box 265
Wind Gap, PA

Gaines Company
Box 35
Long Run Road
Gaines, PA

TACTEC Systems, Inc.
Meadow Lands, PA

Willits Shoe Company
North Second Street
P.O. Box 403
Nalifax, PA

Goodimade Manufacturing Company
1010 Race Street
Philadelphia, PA

Atlas Company
17 East Queen Street
Ephrata, PA

Michelfelder's Lunch Meats
5419 North Mascher Street
Philadelphia, PA

Mid-Atlantic TAAC
List of Firms

Watson McDaniel
975 Madison Avenue
Valley Forge Corp. Center
Norristown, Pa

Allentown Manufacturing
315 Linden Street
Allentown, PA

Virginia

Blue Bird Knitting Mills
5200 City Line Avenue
Hampton, VA

Ideal Fishing Tackle Company
20th and Franklin Streets
Richmond, VA

Harwood Company
P.O. Box 1068
Marion, VA

Fass Brothers, Inc.
P.O. Box 3552
Hampton, VA

Imperial Reading
1920 Atherholt Road
Lynchburg, VA

Maryland

Kessler Shoe Manufacturing Company
191 Schaeffer Avenue
Westminster, MD

Hi-Style Industries
4301 Kenshaw Avenue
Baltimore, MD

West Virginia

Crescent Glass Company
Sixth and Yankee Street
Wellsburg, WV

METRO NEW YORK TAAC

LIST OF FIRMS

Salton, Inc.
1260 Zerega Avenue
Bronx, NY 10462
Kitchen Housewares

Musical Instruments Company
of America
170 Eileen Way
Syosset, NY 11791
Musical Instruments

Colorguard Corporation
One Johnson Drive
Raritan, NJ 08869
Vinyl Clad Chain Link Fences

Knit Capers, Inc.
93-37 150th Street
Jamaica, NY 11433
Ladies' Knitwear

Brooklyn Overall Co., Inc.
112 Commercial Street
Freeport, NY 11520
Ladies' & Young Men's Jeans &
Overalls

Tivot Metalwork, Inc.
1000 Alabama Ave.
Brooklyn, NY 11207
Metal Stamping

Multivox
370 Motor Parkway
Hautpauge, NY 11787
Loudspeakers & Musical Instruments

Dependable Knitwear
87-46 123rd Street
Richmond Hill, NY 11418
Children's Knitwear

Dame Belt & Bags
636 11th Avenue
New York, NY 10036
Handbags & Belts

Milt Posner Fur Company
85 Tenth Avenue
New York, NY 10011
Fake Fur Coats

A. Ludwig & Co., Inc.
133 Middleton Street
Brooklyn, NY 11206
Metal Stamping

Bobby Ellen, Inc.
520 Eighth Avenue
New York, NY 10018
Fake Fur Coats

Nelson Brothers
924 Bergen Street
Brooklyn, NY 11238
Metal Stamping

Division Garment Company, Inc.
512 Seventh Avenue
New York, NY 10018
Ladies' Coats, Suits, & Sportswear

Kelly Slax, Inc.
1384 Broadway
New York, NY 10018
Ladies' Pants

Novasac Sales Company, Inc.
416 West 13th Street
New York, NY 10014
Handbags

Corporate Knitting, Inc.
345 Eldert Street
Brooklyn, NY 11227
Ladies' Knitwear

Bowcar Manufacturing Corporation
112 West 34th Street
New York, NY 10001
Children's Wear

North Shore Sportswear
Dickson Street and the Place
Glencove, NY 11542
Ladies' Leather Coats

Braetan Juniors, Inc.
512 Seventh Avenue
New York, NY 10018
Ladies' Coats

Metro NY TAAC
List of Firms

Little World, Inc.
112 West 34th Street
New York, NY 10001
Children's Knitwear

Dunleigh-Tuxton
One East 33rd Street
New York, NY 10016
Men's Neckwear

Jade Handbag
31 West 27th Street
New York, NY 10001
Ladies' Handbags

Bell Handbag
27 West 20th Street
New York, NY 10011
Ladies' Handbags

G & S Handbag Co., Inc.
44 West 28th Street
New York, NY 10001
Ladies' Handbags

The Model Bride, Inc.
318 West 39th Street
New York, NY 10018
Bridal & Religious Accessories

A. P. C. Amplaco Corporation
136 West 21st Street
New York, NY 10011
Handbags

Wade Knitwear, Inc.
652 Grandview Avenue
Ridgewood, NY 11227
Sweaters

Top Form Mills, Inc.
16 East 34th Street
New York, NY Lingerie

Willow Veal Corporation
114 North Sixth Street
Brooklyn, NY
Meat

Best Craft Handbag Corporation
One East 33rd Street
New York, NY
Handbags

Peerless Umbrella Corporation
Six West 32nd Street
New York, NY
Umbrella

Lou Rand Handbag, Inc.
162 Madison Avenue
New York, NY
Handbag

Kadin Brothers, Inc.
Ten West 33rd Street
New York, NY
Handbag

J. T. Koltes Enterprises, Inc.
780 East 135 Street
Bronx, NY
Ladies' Shoes

Joseph Hirsh Sportswear
70 Washington Street
Brooklyn, NY
Men's Outerwear

Honey Bag Company, Inc.
270 Rider Avenue
Bronx, NY
Handbags

Jolie Handbag, Inc.
416 West 13 Street
New York, NY
Handbags

Artsteak Company, Inc.
88 Street & 73rd Avenue
Glendale, NY
Displays

Delizza & Elster, Inc.
840 Fifth Avenue
Brooklyn, NY
Jewelry

Danville Loungewear, Inc.
38 East 32nd Street
New York, NY
Lingerie & Loungwear

Footlight Parade
180 Varick Street
New York, NY
Ladies Shoes

Metro NY TAAC
List of Firms

Ay-Won Belt Manufacturing Corporation
41 East 11th Street
New York, NY
Belts

Dawson Industries
1350 Broadway
New York, NY
Lingerie Actionwear

Berger Brothers Leather Goods Co., Inc.
325 Fifth Avenue
New York, NY
Handbags

Accessories By Pearl, Inc.
330 Fifth Avenue
New York, NY
Belts

Carnivale Handbags
540 Park Avenue
Brooklyn, NY
Handbags

Bi-Flex International, Inc.
183 Madison Avenue
New York, NY
Bras & Girdles

Scalies Stitching, Inc.
735 Lorimer Street
Brooklyn, NY
Shoes

Davina Lingerie Corporation
630 Broadway
New York, NY
Lingerie

Indian Footwear
431 Southern Blvd.
Bronx, NY
Shoes

Fox Shoe Company, Inc.
826 Broadway
New York, NY
Shoes

Lewis Purses
350 Fifth Avenue
New York, NY
Handbags

N. Erlanger Blumgart & Co., Inc.
1450 Broadway
New York, NY
Textiles

Pensato, Inc.
47 West 34th Street
New York, NY
Shoes

Char-Len Handbag
732 Howard Avenue
New Haven, CT
Handbags

F & T Jewelry
220 West 19th Street
New York, NY
Jewelry

Cardone & Baker
214 Duffield Street
Brooklyn, NY
Shoes

Alert Shoes Corporation
524 Broadway
New York, NY
Shoes

Flower Handbag Manufacturing Corporation
25 Hall Street
Brooklyn, NY
Handbags

Atlantic Fabricators, Inc.
12 Hinsdale Street
Brooklyn, NY
Shoes

Dippy Knits, Inc.
1650 New Highway
Farmingdale, NY 11735
Knitwear

Herbert Products, Inc.
180 Linden Avenue
P.O. Box 384
Westbury, NY 11590
Driers

Martin Greenfield Clothes, Ltd.
239 Varet Street
Brooklyn, NY 11206
Men's Clothes

Metro NY TAAC
List of Firms

Richtone, Ltd.
498 Seventh Avenue
New York, NY 10018
Women's Sportswear

Rhodes Electronics Company
104-25 195th Street
Hollis, NY 11412
Electronics

Valmont, Inc.
171 Madison Avenue
New York, NY 10016

Vance Novelties
12 West 21st Street
New York, NY 10010

W & L Knitting Mills, Inc.
63-49 60th Place
Brooklyn, NY 11227
Knitwear

Trimond Manufacturing Company
224 West 30th Street
New York, NY
Knitwear

Autonumerics, Inc.
120 Plant Avenue
Hautpauge, NY 11787
Lathe Machines

Peerless Sew-Sales, Inc.
262 Mott Street
New York, NY 10012
Sewing Machines

Great Atlantic Shellfish Co., Inc.
50 Emjay Avenue
Brentwood, NY 11707
Fish Processors

Ambico, Inc.
101 Horton Avenue
Lynbrook, NY 11563
Guitar & Camera Straps

William Atkin, Inc.
350 Fifth Avenue
New York, NY 10001
Apparel

Cecile Industry, Inc.
10 Ranick Drive S.
Amityville, NY 11701
Stuffed Toys

Shapiro Wine Co., Ltd.
126 Rivington Street
New York, NY 10002
Wine

Sleepwear, Inc.
One West 34th Street
New York, NY 10001
Pajamas

Lougan Leather Corporation
247 West 38th Street
New York, NY 10018
Leather Goods

R & N Knitted Headwear, Inc.
544 Park Avenue
Brooklyn, NY 11205
Knitwear

Schooner Knitwear Corporation
412 Broadway
New York, NY 10013
Knitwear

Prive Sportswear, Inc.
499 Seventh Avenue
New York, NY 10018
Brassieres

Jameco Metal Products, Inc.
94-34 158th Street
Jamaica, NY 11433
Metal Products

Tiffany Plastics
403 Concord Avenue
Bronx, NY 10454
Novelties & Toys

Trinors Coporation
255 West 36th Street
New York, NY 10018
Apparel

Accurate Casting Company, Inc.
5-20 46th Road
Long Island City, NY
Trophies

Metro NY TAAC
List of Firms

John Karl
209 West 38th Street
New York, NY 10018
Men & Women Sportswear

Claude Clemente, Ltd.
56-02 31st Avenue
Woodside, NY 11377
Jeans

Paddy Lee, Inc.
275 Seventh Avenue
New York, NY 10001
Women's Sportswear

Sue Brett, Inc.
1400 Broadway
New York, NY 10018
Women's Sportswear

Olsen Diesel Engine Corporation
60 South Montgomery Avenue
Bayshore, NY 11706
Diesel Engines

Top Look Leather Fashions
555 Eighth Avenue
New York, NY 10018

Tom Brown Shoe Sales, Inc.
80 Mal Drive
Lindenhurst, NY 11757
Women's Shoes

Felsco, Inc.
116 East 16th Street
New York, NY
Bra Straps

Finesse La Model AB Corporation
Ten East 33rd Street
New York, NY
Handbags

Hercules Plastic Corporation
126-56 Northern Blvd.
Flushing, NY
Plastics

Cable Casting Co., Inc,
270 West 39th Street
New York, NY
Metal Castings

Human Form Hanger and Display, Inc.
6101 16th Avenue
Brooklyn, NY
Displays

Cort Industries Corporation
304 Hudson Street
New York, NY 10013
Slide Fastners

Tarra Hall Clothes, Inc.
Ten West 20 Street
New York, NY 10011
Men's and Ladies' Clothing

Regal & Wade Manufacturing Company
53-23 Nurge Avenue
Maspeth, NY 11378
Photo Albums

Morrisville Company
111 West 40th Street, Suite 2403
New York, NY 10018
Textiles & Knit Fabrics

Carter Leather Goods
330 Fifth Avenue
New York, NY 10003
Small Leather Goods

A & B Sportswear
564 Broadway
New York, NY 10012
Children's Pants & Shorts

Irwill Knitwear Corporation
1407 Broadway
New York, NY 10018
Ladies' Knitwear

Helbros Watches, Inc.
Two Park Avenue
New York, NY 10016
Watches

Abe Levine Knitting Mills
1329 Willoughby Avenue
Brooklyn, NY 11237
Ladies' Knitwear

Hygrade Sportswear Company, Inc.
85 Fifth Avenue
New York, NY 10003
Men's Clothing

Metro NY TAAC
List of Firms

Steffi Fashions, Inc.
500 Seventh Avenue
New York, NY 10018
Ladies' Clothing

Stoney Brook Fashions
1384 Broadway
New York, NY 10018
Ladies' Sportswear

Mel Jay Leather
247 West 38th Street
New York, NY 10018
Leather Coats

Sunrise Knitwear Company, Inc.
1407 Broadway
New York, NY 10018
Ladies' Knitwear

Brookhaven Textiles, Inc.
1412 Broadway
New York, NY 10018
Textiles

Fancy Industries, Inc.
Ten West 33rd Street
New York, NY
Handbags

Certified Creations, Inc.
Five Varick Street
New York, NY 10013
Slippers

Fox Knapp Manufacturing Company
One West 34th Street
New York, NY 10001
Men's Outerwear

Tensor Corporation
333 Stanley Avenue
Brooklyn, NY 11207
Lamps

Cavalier Clothes
90-09 Van Wyck Expressway
Jamaica, NY 11435
Men's Clothing

Gold Star Hat and Cap Company, Inc.
122 Fifth Avenue
New York, NY 10011
Headwear

Mid-Atlantic TAAC

WEXLER KNITTING MILLS, INC.
PENNSYLVANIA

MARKETING AND FINANCE

Project Summary

I. Background

This firm, a sweater manufacturer with sales over $3.0 million, sells its products to brand name manufacturers, national retail chains and wholesalers.

Imports from the Far East impacted the firm's sales to the extent that several major accounts were lost and a 10 percent reduction in sales volume was experienced. This reduction in sales led to a 15.0 percent decrease in the firm's employment.

The firm incurred losses from operations and its working capital position was seriously eroded.

II. Assistance

TAAC assisted the firm's management in the development of a recovery plan with the following strategy:

Expansion of sales force and establishment of an office/showroom in New York

Development of a private label

Participation in large volume programs with national chains

Employment of a full-time designer and use of designing consultant servies to develop a fashionable product line.

Assistance was provided in the preparation of an application for a $1.0 million direct loan to be used for working capital to support the inventories required for the marketing strategy.

III. Results

The firm's sales have approached $5.0 million per year, primarily through participation in the high volume program with national retailers. Employment has returned to levels close to pre-impacted numbers.

The firm is making a profit from operations.

CRESCENT GLASS COMPANY
WEST VIRGINIA

Mid-Atlantic TAAC

Project Summary

MARKETING, TRAINING,
MANAGEMENT CONTROL SYSTEMS

I. Background

This firm is a manufacturer of illuminating glassware and votive candleholders with annual sales close to $2.0 million. These products are sold primarily to wholesalers in a fairly wide geographic pattern.

Imports from Taiwan and Mexico impacted the firm to the extent that sales decreased by more than 10 percent between 1978 and 1979 and employment decreased by 30 percent between 1978 and 1980.

The firm's financial results were erratic during this period as losses related to decreased volume were experienced.

Problems other than the impact of imports were production inefficiency, inadequate cost controls and poor control of inventories.

II. Assistance

A survey of the marketing position of the firm and an overall analysis of the manufacturing operations were made. Strategies involving expansion of the decorated glassware product, which is less vulnerable to being impacted by imports, and improvements in internal operations were developed.

A training program for workers performing the decorating function was developed and implemented. Systems for improving control of inventories, product costing and cost control were designed and installed.

III. Results

The firm expanded its capacity to produce decorated glassware and, as a result of improvements in production efficiencies and controls, has been able to gain and to maintain a consistent short lead time position with its customers.

Inventories have been reduced and increased turnover rates have resulted in substantial savings. Due to the improved cost controls and product costing systems, the firm has been able to price its products for greater saleability.

In spite of its market dependence on the ailing housing industry, the firm has been able to stabilize its financial position at lower than capacity operating rates.

IMPERIAL READING
CORPORATION
VIRGINIA

Mid-Atlantic TAAC

Project Summary

MARKETING, FINANCE

I. Background

This firm, with annual sales over $50 million, manufactures private label denim and corduroy jeans and children's and women's sportswear. The firm's customers are major chain stores and national department stores.

The firm has been severely impacted by imports from the Far East and, as a result, sales decreased by 23.0 percent between 1977 and 1979; in this same period employment decreased 48.0 percent from a level of almost 3000 employees in 1977. The reduced demand for the firm's products forced the closing of several plants.

Losses from operations were incurred with a detrimental affect on the firm's financial condition.

The main problem area to be addressed was marketing.

II. Assistance

The assistance provided the firm centered around financial aid and the development of a marketing strategy. A guaranteed loan of $3.0 million and a direct loan of $1.0 million were secured for the firm to be used for fixed assets to upgrade production facilities and for working capital.

In addition, a marketing study provided the background for the development of a strategy emphasizing a new product line - designer jeans for adults.

III. Results

The new product line has attained a volume that constitutes 50 percent of the firm's business. Overall sales have increased by more than 4.0 percent since 1979. Employment has increased by almost 5.0 percent since production of the new product line began.

The improvement in the marketing position of the firm has resulted in a return to profitable operations and an improvement in future prospects for increases in employment.

Mid-Atlantic TAAC

WILLITS SHOE COMPANY
PENNSYLVANIA

Project Summary

MARKETING, MANUFACTURING, FINANCE, MANAGEMENT CONTROL SYSTEMS

I. Background

This firm, with annual sales close to $6 million, manufactures boys' and girls' shoes for private label sales to national retail chains.

Import penetration of children's shoes, increasing year by year, averaged 45 percent of the market in 1979. The impact of imports on the firm's sales and employment resulted in a 15.0 percent reduction in units sold from 1977 to 1980 and a 11.1 percent reduction in employment.

The firm's principal financial problems were a heavy debt structure, large interest expense and slow turning receivables.

Additional problem areas included aging production facilities, less than optimum inventory turnover and lack of some appropriate control procedures.

II. Assistance

A survey including market studies, an in-depth analysis of the firm's financial condition, an audit of manufacturing capabilities and an assessment of management was made. This study provided the informational background for the strategic planning needed for a recovery plan for the firm.

The marketing strategy involved increasing the firm's retailer base by 25 percent over a three year period, widening the firm's geographic sales strength outside of the Mid-Atlantic area and increasing the value of key house accounts.

Manufacturing and management strategies included modernizing production facilities and improving management information and other control systems.

A loan application for $1.0 million guaranteed loan for fixed assets and inventory expansion was processed.

III. Results

Firm has upgraded its sales force by replacing marginal producers and has increased its large wholesale private label business. Service to retailers has been improved through establishment of a same day shipping policy.

Employment has increased in 1981 by almost 5.0 percent over 1980.

Technical assistance in computerizing the inventory system is expected to be provided in the near future.

FASS BROTHER, INC.
VIRGINIA

Mid-Atlantic TAAC

Project Summary

FINANCE, MIS,
MANUFACTURING

I. Background

This firm, with annual sales of $35 million, is a processor of seafood with other activities in vessel management, seafood restaurant and commercial fishing.

Fresh or frozen products are sold to institutional, retail and wholesale customers throughout continental U.S. and in several foreign markets.

. The firm has been impacted by imports from Japanese fishing fleets and, as a result, employment decreased after 1977 by almost 5 percent and financial losses from operations were incurred.

II. Assistance

After analyzing the firm's needs, TAAC assisted in the preparation of a recovery plan consisting of a two-year development and capacity-building program, supported by financing, with the following elements:

Expansion of existing docking facilities and development of new docking facilities

Additional processing and freezing space including construction of an ice plant

Fleet expansion

Construction of a service and repair facility

Acquisition of a processing vessel

Additional working capital required for growth

Seasonal line of credit and letters of credit

Refinancing of existing term debt

Technical assistance for an MIS system.

Assistance was provided by TAAC to obtain the extensive financing to support the plan. A multi-tiered financial package totaling $17,750,000 was put together from the following sources:

$1,500,000 from Industrial Revenue Bonds

$3,050,000 from a local bank

$ 550,000	from direct EDA loans
$12,650,000	from private investors and other government funding programs.

III. Results

The firm's sales have increased by 33.0 percent over the period 1977 through 1980. Employment has increased in the same period by 42.0 percent to a high of 365 employees.

The firm has returned to profitability and is in a much more stable financial position.

Technical assistance to develop computerized inventory controls and to perform sales analyses are expected to be provided in the near future.

FLASH TRIMMING COMPANY
PENNSYLVANIA

Mid-Atlantic TAAC

Project Summary

MARKETING, INDUSTRIAL
ENGINEERING, FINANCE,
MANAGEMENT CONTROL SYSTEMS

I. Background

This firm, with annual sales of $2.5 million, designs and manufactures novelty trimming and embroidery for men's, women's and children's jeans. The products are sold to brand name accounts throughout the U.S.

Imports from the Hong Kong area impacted the firm causing a reduction in sales of almost 10 percent and a 15 percent reduction in employment.

Reduced sales volumes resulted in financial losses from operations for the firm.

Additional problems that required attention were low productivity in the work force and inadequate internal financial controls.

II. Assistance

Assistance in the form of market studies, an analysis of manufacturing operations and an assessment of existing internal controls was provided to the firm. A comprehensive recovery plan was developed with strategies that included:

Improving production efficiency and costs by the development and installation of a piece rate incentive plan for the workers

Realigning plant facilities for greater efficiency

Designing and installing a forecasting and budgeting system

Increasing sales by developing two new product lines

Expanding the existing marketing organization

In addition, the firm was assisted in applying for a $350,000 direct loan to be used for fixed assets and working capital.

III. Results

The piece rate incentive system has been installed and is expected to provide savings in excess of $125,000 annually.

The internal controls over the firm's operations have been greatly improved with resultant cost reductions and effective systems for managing the business.

Sales have increased by 25 percent to $3.0 million in 1981.

Employment has increased by 7 percent to 140 employees.

From 1980 to 1981 the firm's financial results have swung from a loss to a profit from operations.

LONDON KNITTING CO., INC.
PENNSYLVANIA

Mid-Atlantic TAAC

Project Summary

MARKETING, FINANCE
MANAGEMENT CONTROL SYSTEMS

I. Background

The firm manufactures men's, women's and children's clothing in wool and acrylic fibers and tennis wear. The manufacturing process runs from purchase of raw materials to shipping finished products. Merchandise is sold through a selling agent to middlemen who put finishing touches on garments and then ship to retailers.

Imports mainly from the Taiwan/Hong Kong area impacted the firm between 1979 and 1980 with the following results:

Sales declined by 12 percent from almost $3 million.
Employment declined by 23 percent to 81 employees.
Heavy operating losses were incurred.

Other area of concern: Due to management's day to day involvement with operating activities, more emphasis was needed on market analysis and fashion trend analysis to avoid inventory problems.

II. Assistance

Assistance was provided in the areas of financial planning, marketing study and operations analysis: cost and inventory controls.

Broad based strategies were developed aiming at expanding existing sales levels and improving operating efficiency by:

1) developing and marketing a new line of active sportswear - warm-up suits for men, women and children

2) reestablishing traditional sweater business at an acceptable level through emphasis on styling and sales to larger chains

3) implementation of in-house control procedures to control/monitor internal costs (specifically inventory costs)

4) lay groundwork for eventual penetration into the international apparel market.

A direct loan of $1.0 million was applied for and secured to be used for fixed assets and working capital.

In addition, a consultant's study of operations with emphasis on cost control was provided.

III. Results

As a result of the assistance provided, the firm's sales have increased by

50 percent from 1980 to 1981 to volumes that permit efficient operations.

Employment has increased and became stable at a level near 100 employees, an increase of 36 percent over the low figures in 1977.

Inventories have been reduced and the resultant improvement has contributed to a reduction in operating costs. The firm returned to a profitable operation in 1981 with a large swing from an operating loss in 1980.

The study of the firm's operations led to improved efficiencies in the sewing operations with savings of approximately $65,000.

MIDWEST TAAC ENGAGEMENT SUMMARY

CLIENT: Brooks Leather Sportswear (BLS)
14511 W. 11-Mile Road
Oak Park, Michigan

BACKGROUND:

BLS manufactures motorcycle leather sportswear. Between 1977 and 1979, BLS sales volume increased from $1.8 million to $2.4 million. It's operating profit for the same time period increased from $185,000 to $306,000. In 1979, BLS had 30 employees. In January of 1980, BLS lost its Harley-Davidson account which represented 30% of total sales. Harley-Davidson started buying like products made in Taiwan. Retailers of motorcycle leather sportswear were importing directly from Taiwan and Korea. Even though quality of imported sportswear was not as high as that of BLS, the motorcyclist was not always that discerning and he purchased the lower-priced import.

As a result of the loss of Harley-Davidson account and declining retail sales, total sales volume and earnings were adversely affected. BLS came to MIDWEST TAAC to seek consulting help on how to avoid further sales decline, but more importantly how to increase sales volume and make the company more competitive.

BLS management had some practical thoughts on how to improve sales; management wanted to institute a nationwide manufacturer's representative network, advertise nationwide, and sell to the European market. Independent input was sought from the MIDWEST TAAC to validate management's ideas and to help in implementing them.

OBJECTIVE:

The objective of this engagement went beyond evaluating management's marketing thoughts. Financial strategies, policies and controls were to be evaluated. Plant layout, work flow and production scheduling was to be evaluated.

APPROACH:

MIDWEST TAAC staff consultants had on-site discussions with the management of BLS, after a tour of the plant.

Some of the findings, based on plant tour, discussions and in-depth analyses, are:

Marketing

- o Confirmed need for nationwide manufacturer's representative network. Having dealers only in the midwest was too narrow as a sales base.
- o Confirmed need for advertising in media that have nation-wide access. This effort required the assistance of an advertising agency.
- o The requirement for an in-depth study of the European market to determine the market potential for BLS. This study, estimated at $20,000, was to be financed through technical assistance from ITA.

Production

- o Plant layout needed some improvements
- o Production scheduling and work flow needed to be improved upon.
- o More efficient inventory control systems needed to be instituted.

Estimate of production-related technical assistance was $20,000.

Finance

- o Need for operating budgets
- o Need to improve BLS equity via greater retention of earnings
- o Evaluation of lease/purchase of a computer

SUMMARY:

BLS received technical assistance in these amounts:

- \$20,000 for export market studies
- \$20,000 for production-related improvement studies
- \$2,000 for evaluating the need for an in-house computer, and evaluating whether to buy or lease once the need is established.

BLS had been able to implement some of the adjustment plan findings. Some manufacturers representatives have been signed on. More are being signed on around the country. BLS is committed to exporting. The more noticeable results of MIDWEST TAAC's association with BLS are:

- o Improved sales in 1981. Total sales volume: $2.6 million.
- o Increased employment: Not only has BLS been able to retain the 30 employees it had at the time it came to MIDWEST TAAC, BLS has increased its employees roll to 32.

MIDWEST TAAC ENGAGEMENT SUMMARY

CLIENT: Cleveland Motive Products, Inc.
Manufacturer of Automobile and Truck Parts for the Aftermarket

BACKGROUND:

Cleveland Motive Products, Inc. (CMP) was founded in 1953 as a distributor of automotive and truck components for the aftermarket. The present owner purchased the company in 1974.

U-Joint, Inc. (UJI) was formed in 1977 to produce U-joints for the automotive market. U-joints provide flexibility to the drive train between the transmission and the differential of rear-drive vehicles.

CMP markets U-joints which it purchases from UJI. It also markets hanger bearings which it assembles from parts purchased from outside vendors. Hanger bearings are used to support the drive shaft of trucks and some larger passenger cars. Recently, a line of timing components has been added to the CMP product lines. These are presently purchased for resale through CMP's distribution system.

UJI's only product is U-joints that it sells to CMP and to its own customers on a private label basis.

Sales, profits, and employment were as follows:

	1978	1979	1980
Sales (Million $)	5.1	6.5	5.4
Profits (Thousands $)	237	343	(209)
Employment (Average)	62	67	69*

*As of October 1, 1980, actual employment was 50

Hanger bearings accounted for about 63 percent of sales.

Components of the Engagement

MIDWEST TAAC staff members conducted marketing, manufacturing, and financial analyses of the firm's operations.

Three overriding problems existed:

- The firm's products were import impacted.
- A recession existed in the firm's only market, the automotive industry.
- A transition was taking place from rear-drive to front-drive vehicles.

In addition, the firm was having startup problems with a high-speed transfer machine that could produce 17 U-joints a minute. The company's ability to survive in the U-joint market depended on the successful operation of this machine.

Strengths that the company had were a good distribution system and capable management and marketing personnel.

The strategy which MIDWEST TAAC assisted CMP in developing included:

- Remain in the hanger bearing market and expand the line to include popular sizes and types not now produced.
- Remain in the U-joint market, concentrating on bringing the transfer machine up to the required production rate.
- Expand the present line into high-mortality engine, drive line, and chassis parts.
- Enter the front-wheel drive market, starting with rubber boots and expanding into metal parts at a later date.
- Enter the export market, initially in Venezuela and other Latin American countries where contacts had already been established.

These projects were forecasted to create potential sales of about $20 million by 1984.

Implementation

To implement the above strategy would require:

- Technical assistance in the form of a market study to determine and prioritize the new products to be added, at an estimated cost of $25,000.
- Technical assistance in the form of services of an industrial engineer to redesign the layout and work flow planning at UJI, at an estimated cost of $12,500.
- Financial assistance in the form of a guaranteed loan for $2,400,000, of which $1,775,000 would be allocated to machinery and equipment and $645,000 to working capital.

It is expected that implementation of the proposed strategy would result in employment increasing from its 1980 level of 50 to 90, 120, and 152 in 1982, 1983, and 1984, respectively.

RESULTS

The firm made a loan application in Washington. The loan application committee suggested several changes in the application be made. The firm will resubmit its application before April 1, 1982. Technical assistance for a marketing study and for industrial engineering will also be applied for.

2/17/82

MIDWEST TAAC ENGAGEMENT SUMMARY
by Tom O'Leary

Apparel Manufacturer	Information Systems
DALTON INDUSTRIES, Inc. Willoughby, OH,	Contact: - Mr. Ed Young VP, Administration

BACKGROUND:

This large firm designs, manufactures, and markets women's sportswear. Increased imports of all apparel, combined with shifts in market preference, caused a sales drop in 1979 of more than 20%.

OBJECTIVE:

The major objective of this engagement was to assist the firm in improving its ability to react more promptly to market trends and to actual sales.

COMPONENTS OF THE ENGAGEMENT:

After conducting a comprehensive review of the companies marketing, managerial and operational practices, the TAAC engaged consultants to assist the firm on two pivotal projects.

The first was a $33,000 project to develop techniques to improve sales forecasting so as to reduce the production of unwanted merchandise that would have to be marked down at the end of a season.

The second was a $55,000 computer programming project to redesign the company's computer data base to accommodate the first project and also to accommodate other future improvements in management information systems.

SUMMARY:

As a result of the company's efforts, in conjunction with the trade adjustment assistance provided, the following has occurred. The company has increased employment to 1800 from the 1400 previous peak and from 1100 at the low point.

- Sales have returned to the previous level
- Profitability has been enhanced
- Company management is receiving better information with which to respond to market conditions.
- Further improvements are being made in production control and in materials management.

NOTE: The company has authorized the use of its name in this report but does not permit release of sales or profit figures.

Hayward-Schuster Woolen Mills, Inc.
Gilboa Street
East Douglas, MA 01516
Winfield A. Schuster, President
(617) 476-7411

Hayward-Schuster is one of several such mills in New England producing woolen and wool blend cloth for apparel and upholstery. A combination of factors including a heavy influx of woolen cloth imports from Italy and the United Kingdom contributed to the company's problems. According to the 1979 U.S. Industrial Outlook, U.S. Department of Commerce, ITA, the value of woolen cloth imports increased by over 132% between 1975 and 1978. It has since receded somewhat but not before damaging our domestic industry.

Hayward-Schuster reluctantly entered the Trade Adjustment Program, preferring originally to solve its own problems. After it became apparent that outside assistance was necessary, the firm qualified for the Program and requested a TAAC project officer to assist in developing a recovery plan. The firm, in attempting earlier to solve its own problems, had already accomplished a survey of operations; and thus management knew the general direction in which to proceed.

Among the findings from the survey, and which would become elements of the recovery plan, was that Hayward-Schuster had purchased a set of looms which turned out to be "lemons". These new looms, which became literally inoperative in time, had severely drained the firms financial resources. A disinterested source estimated that these looms had cost Hayward- Schuster in excess of $12,000,000 in lost production and sales alone. This element, plus foreign competition caused mounting losses and a drastic drop in the number of employees from well over 500 to near 300, at one point. This was especially damaging to the local economy as Hayward-Schuster is a key employer within its region.

The TAAC project officer worked very closely with Hayward-Schuster's managment in developing a recovery plan involving both a loan application and consulting assistance focussing on productivity, although "marketing" was also an important part. The firm sought a $3,000,000 guaranteed loan, negotiated with its factor as the lender, to purchase all new looms to replace the "lemons," and for working capital and complemented by the establishment of internal systems and controls. The loan was closed in December 1981; the first new looms have already been delivered, others are on order. Preparations are underway to provide the company with consultant expertise in computer application of internal systems.

Hayward-Schuster is grateful for the cooperation, service and close working relationship of the TAAC in providing the assistance. The company recognizes that without the help of the Trade Adjustment Program, the mill would likely have been forced to cease operations - it was inevitable.

York Capacitor Corporation
460 Weaver Street
Winooski, VT 05404
Harold Dubilier, President
(802) 655-2550

York Capacitor was a leading supplier of capacitors, devices used for the storage of electrical energy. Its main customers were flourescent lighting and air conditioner manufacturers. The market for the small flourescent lighting, or "tubular" capacitors was generally lost to the Japanese which dropped prices more than 22% between 1978 and 1980. Persons knowledgeable of the capacitor industry reasoned that Japan was attempting to capture the U.S. market for tubular capacitors with no apparent regard for breakeven or profitability. Management reasoned, therefore, that the firm's recovery depended mainly on the success of the air conditioner or "AC can" capacitor which is much less labor intensive.

With assistance from TAAC, the company submitted a business plan based on the production and marketing of a new-technology AC capacitor. It seems as though a smaller, lighter and less expensive AC capacitor had recently been developed using metallized, polypropylene film instead of paper/foil construction. Because it is not a labor-intensive product and because only "approved" U.S. manufacturers of AC capacitors (of which this firm is one of only eight in total) can supply the major markets, the risk of overseas competition is minimal. Industry anticipated that the new metallized capacitors would soon render the older ones obsolete.

The business plan involved the purchase of specialized machinery needed to produce the metallized capacitors and a financial package to support the purchase. Market development for the new capacitors was seen as almost foolproof as they would directly replace the older type in similar equipment. Also, only two of the eight "approved" AC capacitor makers are producing the new type allowing York to get an early foothold in the market before the others followed.

To support the purchase of machinery and equipment for producing the new product, York, with assistance from the TAAC project officer, submitted an application for a $240,000 direct loan. In having this loan approved by ITA, York was able to leverage an additional $110,000 from other sources.

York Capacitor is now producing the new-technology capacitors which are quickly replacing the obsolete type. The company's share of the AC can capacitor market is now increasing; sales are up dramatically, 25 new employees have been added and more are expected. Mr. Dubilier attributes his company's survival and stability to the expeditious assistance provided by the Trade Adjustment Program.

Lorraine Handbags, Inc.
79 Essex Street
Boston, MA 02111
Charles Pagliarulo, Treasurer
(617) 423-5889

Lorraine Handbags is a small manufacturer of leather and suede handbags and accessories. Originally, its products were sold to mass-merchandisers who, in recent years, stocked an increasing number of lower-priced imports from Taiwan, Hong King and Colombia. According to the 1979 U.S. Industrial Outlook, U.S. Department of Commerce, ITA, imports of leather handbags increased by an estimated 21% from 1973 to 1978. From 1974 to 1979, Lorraine's sales, reflecting this influx of foreign-made handbags, fell by almost 75%. Profit margins evaporated and employment declined from 20 to just 6 production workers.

Analysis of the firm's operations by the TAAC project officer revealed a marketing problem and the need for assistance in that area. The consultant hired for this project confirmed the TAAC officer's feelings that the company had been competing directly with low-end imports and that a new marketing/product strategy was needed for recovery. He discovered, via field research, that Lorraine's handbags were being sold literally side-by-side the less expensive, lower quality imports in chain discount department stores. Obviously, they were not moving because they were losing out against price competition. The Lorraine product, being of somewhat better quality, was in the wrong stores and was being retailed to the wrong group of consumers.

Key recommendations centered around upgrading the retail accounts by changing distribution to include specialty stores, boutiques and "first floor" department stores, rather than mass-merchandisers. The product, also, was substantially upgraded by adding inner liners, designing for more style and fashion, extending the line to new colors, and generally including those elements which will bring a higher price.

The strategy was obviously successful because sales rose from $260,000 in 1979 to $1.5 million in 1981 and there is every indication that sales will exceed $2.0 million for 1982. Profitability has been restored and more employees are being added at regular intervals. Management of Lorraine Handbags admits that the firm would probably be out of business today if it were not for the Trade Adjustment Assistance Program.

SOUTHEASTERN TAAC ENGAGEMENT SUMMARY

I. HISTORY/PROJECT BACKGROUND

The Keane Monroe is a North Carolina Corporation, manufacturer of automatic door operators. Historically, the firm experienced sales levels of $3 million and total employment of 62 persons. The firm suffered a sudden 22% decline in sales volume when Besam, part of a large Swedish conglomerate, purchased Keane Monroe's largest distributor for distribution of Besam's own automatic door operator products.

II. TRADE ADJUSTMENT ASSISTANCE PROVIDED

The Southeastern TAAC conducted an audit of the firm's operations. A strategic plan was developed with the following objectives: 1) develop new products to fill significant product line gaps and improve the price competitiveness of certain existing products; 2) improve the visibility of the Keane Monroe name and gain acceptance by major chains and architects; 3) reduce the dependence on Northeast markets by expanding sales in other areas of the country; and 4) strengthen market planning and management programs.

Keane Monroe committed its requisite strength to many of the critical tasks necessary for recovery; however, the company needed assistance in several areas. The company's 1979 marketing plan was rendered useless by the unexpected nature of the sales decline. The firm needed an objective examination of its market opportunities and some reduction with respect to geographic and product concentration. Marketing expertise was provided to the company to conduct a market planning study for the company. The project consisted of four phases: 1) Review and analysis of Keane Monroe's marketing and the market; 2) Development of marketing objectives and strategies; 3) development of detailed marketing action plans; and 4) estimates of potential sales and marketing cost. The plan was favorably received by the ownership of Keane Monroe. To completely implement the plan on the outlined timetable, some new financing was needed. After reviewing the firm's strategic plan, the Regional Office of EDA accepted the plan and agreed to provide additional assistance.

The company and SETAAC worked out an extended timetable and the company proceeded to implement the plan.

III. RESULTS

It has been two years since the company has received Trade Adjustment assistance. Much has been accomplished. As a result of the market planning provided by the TAAC, and the effort put forth by the management and employees of Keane Monroe, the company developed three new products and brought them to market: 1) a versatile overhead concealed electrohydraulic operator, the Series 4500, which is said to be the quietest in the industry; 2) a heavy duty slider operator, the Series 7000, which has sold very well; and 3) a light duty operator, the Series 100, which is inexpensive enough for residential use. Two new regional sales managers were hired, and the sales efforts in the Midwest, northern California, and Southeast sales regions have been successful. In 1981 the company enjoyed sales of approximately $3.6 million and registered an after-tax-profit of $103,292, despite interest payments of $85,000 above the budgeted amount (due to unexpectedly high prime interest rates). This represents a 24% increase in sales and a 686% increase in after-tax-profit. The future looks bright for Keane Monroe. It has more than regained the business lost in the Northeast, has new products with customer appeal, and has regained its profitability.

TRADE ADJUSTMENT ASSISTANCE ENGAGEMENT SUMMARY

I. HISTORY/PROJECT BACKGROUND

The Joy Footwear Corporation, located in Hialeah, Florida was founded in 1971 as a manufacturer of casual footwear and athletic shoes generally made of canvas upper components and rubber soles. We were a relatively successful company and by 1977 had reached $9 million in sales, comprised mostly of canvas basketball shoes. We employed approximately 350 persons.

In the years following 1977, the nylon and vinyl jogging shoe became very popular, and the market for basketball shoes and canvas shoes in declined. Joy Footwear began to manufacture jogging shoes but was unable to attain any degree of success in this market because of the market being flooded with cheaper imports from Taiwan and Korea. Price wise, Joy Footwear was unable to compete with the imports because it lacked the ability from a productivity standpoint to make up the difference between American and (cheaper) foreign wage rates.

By 1979 sales had declined from the 1977 high of $9 million to $4.5 million. Employment was down from 350 to 140. As the result of declining sales and unprofitable operations, the company was financially weak and unable to borrow money in the private sector.

II. TRADE ADJUSTMENT ASSISTANCE PROVIDED

In 1979, Joy Footwear Corporation filed a request for Trade Adjustment Assistance with the Department of Commerce. The firm was certified as eligible to request assistance and did so by requesting help in the preparation of a strategic business recovery plan.

A well-known national consulting firm was provided through the Trade Adjustment program to assist the company in developing a strategy to overcome the problem of import impaction. The consultants audited all company operations to identify the problems and opportunities of the firm. The consultants, together with the management of Joy Footwear, prepared a tactical plan which included the following elements:

1. A consolidation of product lines, with concentrated effort in certain product lines and market segments;
2. An improvement in both the quality and quantity of the sales force;
3. The purchase of production equipment, including two additional injection molding machines, which would increase the plant output to levels consistent with sales projections; and

4. The installation of sewing machinery work aids and revision of the work measurement system to improve productivity and reduce labor costs.

The plan was submitted to the Department of Commerce and subsequently approved, thus allowing Joy Footwear to receive additional technical and financial assistance to implement its recovery plan.

Financial assistance was provided through the Trade Adjustment Assistance Program to support Joy Footwear's strategy. A combination guaranteed/direct loan was approved for $1.75 million to supply working capital for the new marketing strategy and to purchase the new equipment for the productivity improvement strategy. Technical assistance was approved to provide 12 person-months of on- site industrial engineering expertise to restructure to work measurement standards and install machinery work aids.

III. RESULTS

As a result of the production efficiency program, manufacturing costs were reduced by 15 percent. Some productivity savings were passed along to the employees allowing them to increase their hourly earnings. The technical assistance, together with the new working capital, provided the basis of Joy Footwear's active pursuit of the new jogging shoe market.

Sales for 1981 were $16 million -- up from the 1979 low of $4.5 million. The company now employs 600 persons, many female, mostly Spanish-American workers in the Hialeah-Miami area.

SOUTHEASTERN TAAC ENGAGEMENT SUMMARY

I. BACKGROUND

Dawson Industries, Inc., is located in Dawson, Georgia with sales and administrative offices located in New York City. The firm currently engages in the manufacture, sales, and distribution of men's, women's, and children's athletic/active sportswear in knit and woven fabrics of cotton and synthetic fibers. Its product line in the past also included sleepwear and panties. Today, their products are sold to speciality stores, department stores, and discount chains either by independent representatives or company salesmen, depending upon geographic territories.

After enjoying success in the early seventies, the firm began to experience serious competition from imported ladies' and children's apparel products, particularly sleepwear and panties, from the Far East. Between 1974 and 1976, Dawson Industries suffered a 34 percent decline in employment (from a high of 585), a 20 percent decrease in sales dollars (from a high of $5.8 million), and a 15 percent decline in production.

II. ASSISTANCE PROVIDED

The firm developed a new business strategy to combat the effect of imports and to regain its competitive position. Working with the New York TAAC, Dawson Industries received a $1 million Trade Act loan to provide working capital for repositioning its sportswear line to include higher prices and more fashion-oriented garments. The firm was able to increase sales from $4.6 million in 1976 to almost $11.7 million in 1979 based on this new strategy.

Despite this significant increase in sales volume, Dawson was unable to achieve adequate profit performance. Because of continued import competition, the firm could not raise its prices and had to focus on manufacturing cost reductions as a means of restoring acceptable profit levels.

The Southeastern TAAC assisted the firm in formulating a strategy for improving profits, with particular regard to reducing manufacturing costs and increasing managerial efficiency. Based on an operational audit performed by the Southeastern TAAC, several opportunities were uncovered. To improve operations, the Southeastern TAAC recommended the installation of a fully integrated production system; the re-engineering of the sewing room to include the development of new piece rates and cost reporting; supervisory training and new line balancing methods; modification of existing product costing procedures to allocate direct overhead and materials cost more accurately; a review and improvement of plant layout; and the establishment of improved operating budgets.

The Southeastern TAAC provided technical assistance toward achieving these ends by engaging private consultant contractors to address the areas of production control, product costing, and sewing room engineering, while the firm used its own resources to effect other of the recommended changes.

III. RESULTS

Dawson Industries has been successful in achieving its goals. Sales in 1981 reached $18.0 million. The cost reduction program in the manufacturing area can document savings in excess of $100,000 annually, contributing to a return to acceptable profitability. Employment in Dawson, Georgia has returned to previous levels, and excellent prospects exist for an expansion which will add 100-150 new jobs in an economically depressed area. Jobs have also been created in other manufacturing firms which act as a subcontractor to Dawson in producing garments to meet sales opportunities.

NEW YORK STATE
TAAC
Trade Adjustment
Assistance Center

Hillside Building
4500 Old Vestal Road
Binghamton, New York 13903
607-729-2201

Engagement Summary

Utica Duxbak Corp.

Outdoor Sportswear Manufacturer Production and Marketing

Background:

Utica Duxbak Corporation, founded in 1904, is primarily engaged in the manufacturing and selling of hunting, fishing and outdoor clothing. The firm sells direct to retail accounts through its own sales force and manufacturer representatives.

Annual sales and employment peaked in 1978 at $4,425,000 and 100. However, sales and employment declined by 1980 to $4,000,000 and 88. This decline is attributable to the importation of cheaper competitive clothing from foreign exporters and domestic manufacturers having sportswear made for them abroad.

Objective:

A review of the firm established the goals of helping the firm formulate a strategy for improving profits. The strategy was designed to reduce manufacturing costs through increased operating efficiencies; increase sales through expanding the market base and obtain a fixed asset and working capital loan to finance the increased sales derived from the marketing effort.

Components of Engagement:

A key component of this engagement was the evaluation and selection of consulting firms to reengineer the firms pant production line and develop a comprehensive marketing plan.

The reengineering work included:

1. Analyzing the various styles of pants being manufactured to determine the potential to standardize particular operations.

2. Developing an optimal pant line production layout which will optimize operators, floor space, workstations and equipment requirements.

3. Design an incentive system to yield actual average earnings sufficiently high to permit the firm to compete successfully for employees in its labor market and produce maximum productivity.

4. Develop economical and expeditious material handling procedures.

The marketing plan included:

1. Identification of new markets with a plan for penetration.
2. New product development.
3. Establishment of a profitable corporate marketing direction.
4. Image building.
5. Determination of market share available to the firm.

Summary:

As a result of the reengineering of the pant production line the firm has experienced a cost reduction of 15% in one year. As sales volume increases greater reductions are anticipated.

As a result to the comprehensive marketing plan the firm has begun to regain lost volume and attacked new markets through the establishment of factory outlet stores throughout the Northeast.

With the assistance of the New York State Trade Adjustment Assistance Center the firm obtained a direct fixed asset loan of $157,500 and a direct working capital loan of $740,500 from the Economic Development Administration.

NEW YORK STATE
TAAC
Trade Adjustment
Assistance Center

Hillside Building
4500 Old Vestal Road
Binghamton, New York 13903
607-729-2201

Engagement Summary

Ithaca Gun Company

Shotgun Manufacturer

Finance, MIS, and Engineering

Background:

Ithaca Gun Company is a manufacturer of high quality sporting firearms that suffered a $5 million decline in annual sales due in large part to steadily increasing sales of imported firearms. The company's major products consist of sporting shotguns of various gauges used for hunting, trap and skeet shooting.

Objective:

The objectives of this engagement were to assist Ithaca Gun Company in returning to profitability and maintaining their employees by securing the necessary financing and providing skilled consulting services. NYS TAAC worked closely with the firm's top management in developing a strategic business plan calling for financial assistance, engineering/new product development and implementation of an improved Management Information System.

Components of the Engagement:

NYS TAAC staff members in conjunction with the management of Ithaca Gun evaluated the working capital needs of the company and prepared a Trade Act loan application. The seasonal and unique nature of this business required special attention to cash flow projections.

An outside consulting firm specializing in electronic data processing was selected to assist the firm in the installation of a much improved in-house management information system utilizing a data base concept.

Currently the NYS TAAC is developing an engineering proposal such that Ithaca Gun can soon start production of an innovative, newly designed trap gun.

Summary:

With the disbursement of the working capital loan ($750,000), the company has been better able to schedule production and minimize the seasonal industry cycles. The MIS program is already generating more timely, reliable information which will result in continuing cost savings. The third phase of the program is nearly in place and should result in substantial sales increases. In addition to the new trap gun, Ithaca has developed another new hunting shotgun that has generated considerable excitement in an industry that is often characterized as old-fashioned and non-responsive.

As a direct result of the assistance provided under the Trade Act, Ithaca Gun has been able to maintain its market share in the face of a severe industry downturn.

NEW YORK STATE
TAAC
Trade Adjustment
Assistance Center

Hillside Building
4500 Old Vestal Road
Binghamton, New York 13903
607-729-2201

Engagement Summary

Macler Industries, Inc. Marketing and Manufacturing

Background:

Macler manufactures cast iron products sold to original equipment manufacturers. Its annual sales of 3000 tons declined due to imports of compressor, economizer, EGR valve and carburetor castings. It also suffered a secondary loss because many of its clients were also import impacted.

Objective:

The objective of the New York State Trade Adjustment Assistance Center's participation was to assist the firm in developing a strategy to increase sales. To do so would require the protection of existing sales as well as the development of new markets.

Components of Engagement:

The New York State Trade Adjustment Assistance Center's staff examined the firm's facilities, systems and marketing programs. It also met with Macler's key managers to assess the firm's ability to develop new products and to identify major growth obstacles.

A foundry specialist was also retained to evaluate the firms capabilities and to recommend a growth direction.

Summary:

The result of this effort identified the need for Macler to develop new processes. Without this, it could not remain competitive or develop adequate market diversification. It was also established that a long range coordinated program was essential and that outside engineering was required to execute it. The need for improved marketing techniques and improved information systems was also established.

An engineering consultant was engaged to assist in the installation of two new systems. One, the vacu-shell system, has been the first installation of its type in this country and sample products are now being produced. An economic analysis determined that the second system be phased to conform with sales. It permits Macler to produce massive heat exchanger castings. The prototype phase layout is now being replaced with the next phase and subsequent phases will take place as sales demand.

Marketing tools have been developed which are now in use and a computer has been installed. Manual information systems are systematically being converted and new systems will soon be designed and added.

The engineering consultant is still active and now concentrating on plant layout, material handling, ventilation and pollution control improvements.

The firm is pleased with its progress and feels that this would not have transpired had it not been for the New York State Trade Adjustment Assistance Center's assistance.

JOLIE HANDBAG,INC.
416 West 13th Street
New York, N.Y. 10014

Product: Ladies Handbags

Contact Person: Gerald Manowitz,President
212-691-5265

When Jolie Handbags, Inc. was certified in December 1978, its sales were $2.9 million and articles produced were 1,375,000 units. Employment at the time of certification was 140. Imports from Overseas had impacted the firm.

Metropolitan N.Y. TAAC diagnosed Jolie Handbag's problems and assisted the firm in the development of its loan application which culminated in November 1979 with the firm receiving a $850,000 working capital loan and $150,000 fixed asset loan from the E.D.A..

Jolie Handbag, Inc. has also received Marketing technical assistance. This assistance which was supplied as a co-operative venture between Metro N.Y. TAAC and the National Handbag Association became the basis upon which Jolie Handbag was able to adapt to the changing market place. For example, Jolie Handbag changed its market field from discount stores (low price handbags) to shoe and apparel chains (moderate price handbags) who are more fashion oriented.

The benefits of the loan and the technical assistance allowed the firm to increase its sales from $2.9 million in 1978 to $7.6 million in 1981, while employment increased from 140 to 269 during that time.

The management of Jolie Handbag,Inc. believes that the firm would not be in business today, if it were not for the Trade Act of 1974.

WESTERN TAAC ENGAGEMENT SUMMARY

Jewelry Manufacturer | Marketing, Production and Design

Background

Annual sales for this manufacturer of costume jewelry rose from $32,000 in its first year, 1961, to a peak of over $800,000 in 1977, when import competition began to be felt. In 1978 sales fell to $425,000, and employment went from a high of 35 to a low of 6.

It seemed apparent to management that a rapid departure from costume jewelry, which had been almost entirely taken over by offshore manufacturers, into karat jewelry was strongly indicated. But this area, too, was being invaded increasingly by Italian, Israeli and Far Eastern firms. The client wished to enter the field of artificial diamonds in gold settings.

The firm did not have the finances to do a marketing study to determine the viability if this step.

Objective

A diagnostic study of the firm by Western TAAC revealed that there was a need for funding, a change in the product line and improvement in the design of any line, improved production engineering and a better understanding of its marketing problems.

Components of the Engagements

Western TAAC engaged the services of the country's leading jewelry consultant to determine the feasibilty of the articial diamond field for the client. They also obtained the services of consultants in production and design. In addition, the Western TAAC staff analyzed the results of the feasibility study as it applied to marketing, and hired a financial consultant to help with the preparation of the client's Loan Application.

Summary

The results of these engagements indicated that the firm's intended entry into the artificial diamond field was not only feasible, but well timed and likely to succeed. The designs of the mountings were greatly

Jewelry Manufacturer, cont.

improved. The machinery was improved by the addition of inexpensive attachments, and the workers were better trained to utilize the machines to their fullest capacity.

The firm obtained a direct loan from EDA for $250,000 and their cash flow subsequently changed from negative to positive.

Sales volume increased to the million dollar annual level. Employment doubled within a short period, and the firm reached a profit mode for the first time in several years.

Dawson Industries Inc.

1350 Broadway

New York, New York 10001

Contact Person: Max Angel, Pres.
(212)695-9215

Product: Ladies Lingerie and
Men's, Ladies and Children's Actionwear

When Dawson Industries was certified in 1977 its sales were $4.5 million and articles produced were 855,000 dozens. Employment at the time of certification was 385. Imports from Overseas had impacted the firm.

This Trade Adjustment Assistance Center assisted Dawson Industries in the development of its loan application which culminated in November 1979 with the firm receiving a $1,000,000 working capital loan from the EDA. The firm also received implementation technical assistance which included an engineering study with emphasis on plant layout, pay incentive program and production scheduling.

This implementation technical assistance which was supplied as a co-operative venture between Metro NY TAAC and Southeastern Regional TAAC at a cost of over $100,000 became the basis for plant expansion from 40,000 sq. ft. to 132,000 sq. ft. This resulted in greater plant capacity and efficiency.

The benefits of the loan produced an obviously better cash flow, that allowed the company to expand and diversify its business, and increase its production and reduce unit costs. Instead of floundering, the business grew. Sales increased from $4.5 million in 1977 to $18 million in 1981, while employment increased from 385 to 450 during that time.

WESTERN TAAC ENGAGEMENT SUMMARY

Fishing Pole Hardware Manufacturer Marketing and Production

Background

This manufacturer of fishing pole components and accessories, after a history of gradually increasing volume and profits for over 30 years, started to show a sharp downtrend when impacted by imports from the Orient in 1977. Volume receded from $2,300,000 to under $1,500,000, while employment was reduced from over 80 to under 30 workers.

Objectives

Western Taac perceived that the firm would have to find outlets for its capabilities in areas other than fishing poles, since this appeared to be a dying domestic industry. An outside production engineering consultant was engaged by Western TAAC to evaluate the firm's machinery and equipment and to help determine in which markets the firm might have a viable place.

In addition, Western Taac was asked to evaluate the feasibility of the firm's entering the aluminum anodizing field, either for its own products or as a contractor, or both.

Furthermore, it was determined by Western TAAC that a new product line would have to be developed to make optimum use of the firm's facilities.

It was also observed that outside financing would be required to enable the results of these findings to be implemented.

Components of the Engagements

The production engineer determined that the firm rightfully belonged in the job-shop business and set about identifying suitable areas for pursuing this direction.

The Western TAAC staff made projections of cost and performance factors associated with entering the aluminum anodizing field.

Western TAAC engaged an outside consulting firm to identify new products suitable for the firm to manufacture as proprietary items.

Fishing Pole Hardware Manufacturer, cont.

Summary

As results of the application of Western TAAC resources to the problems confronting the firm-

- The firm was enabled to bid successfully for job shop work in the aerospace industry, including being accepted as eligible from the point of view of Quality Control.

- Because it was determined that entry into the aluminum anodizing field was not likely to be cost effective, the firm was saved the probability of losing substantial sums of money and the loss of valuable executive time in a fruitless endeavor.

- The outside consultants engaged to identify new products did, indeed, identify more than a dozen viable products, some of which the firm will very likely manufacture in the near future.

- Western TAAC helped the firm secure an SBA loan of $375,000, which has been instrumental in enabling the firm to reach its objectives.

As a further result of this assistance, volume is now beginning to pick up and the work force is up to 40 persons. The company is firmly established in the job shop field and is finding increasing acceptance for its work. Negotiations are proceeding with the respective inventors and/or their representatives for manufacturing the identified proprietary items under license.

Little World, Inc.
112 W. 34 St.
New York, N.Y. 10001

Friedrich Knitting Mills, Inc.
8400 73 Ave.
Glendale, N.Y. 11227

Contact person: Ed Stalzer, V.P.
(212) 894-4500

Product: Knitted Infants and Childrens Wear

When Little World was certified in 1979 its sales were $4.9 million down from sales of $5.9 million in the previous year. Employment at the time of certification was 186. Imports from the Far East had impacted the firm.

Metropolitan NY TAAC diagnosed Little World's problems and assisted them in the development of its business plan which culminated in May 1980 with Little World receiving an $800,000 working capital loan from the EDA. The firm also received implementation technical assistance which included a marketing study and merchandising plan, and an engineering study with emphasis in the knitting areas, pay incentive program and production scheduling.

This implementation technical assistance which was supplied by Metro NY TAAC at a cost of $70,000 became the basis upon which Little World was able to adapt to the changing market place. For example, Little World diversified its production by marketing woven bottoms that coordinated with their knitted tops. This has made their product more salable. The channels of distribution were also diversified to include chain stores. In 1981 sales made to the chains were $3,000,000.

In addition, the technical assistance provided in the production area alone resulted in a one year savings at least equal to the $70,000 spent on the total technical assistance.

The benefits of the loan produced an obviously better cash flow, that allowed the company to remain successfully in business. The firm has gone beyond its sales projection of $7.5 million to $8 million while employment increased to approximately 250 in 1981.

SDG:lk
2/17/82

Western TAAC Engagement Summary

Personal leather goods manufacturer

Plant feasibility
Information systems
Marketing and Finance

This firm is a smaller family owned leather goods manufacturer with sales in the $2 million dollar range. The products include high quality wallets, check book covers, purses and key cases for both men and women. Products are sold through better department stores and luggage specialty shops.

Because of the father's old-world leather craftsmanship training the product competes favorably with the best personal leather goods on the market today no matter what the country of origin.

In addition to price competition from off-shore products this firm was also experiencing the same dificulties that all firms experience as they transcend the dividing line between entreprenuerial start-up and higher volume production.

The manufacturing area although well organized was at capacity for the existing space.

Production control and inventory control were also at the upper limits of capacity for the manual information systems that were being used.

And finally, the marketing activities were proceeding in a haphazzard sell-where-it-could-be-sold manner.

Objectives

The objective of this engagement was three-fold as follows:

1. Find alternate ways of expanding production space and examine the feasability of each
2. Locate or design an information system that would handle the Company's requirements during their next phase of growth
3. Develop an organized strategy to marketing that would orient the Company's thrust in the same direction thus complementing and building on each achievement

Western TAAC assisted these companies on all three fronts by arranging for consulting assistance in each area.

Results

1. The feasibility study determined that a new plant should be built on land adjacent to the existing plant if financing could be obtained at a certain rate of interest. If not, a work flow reorganization would be necessary until that interest rate was available.

   Western TAAC is presently in touch with several state and community assistance programs to obtain appropriate financing.

2. The requirements of an information system have been identified and the Company is presently accepting proposals from various suppliers based on these requirements.

3. A marketing strategy task has been responded to by several qualified consultants and the Company is in the process of deciding on one.

The Company is looking forward to operating in a much more efficient manner at the conclusion of each of these projects and anticipating continued steady growth over the long term even in the face of potent import competition.

KOLTIS ENTERPRISES, INC.
780 East 135 Street (South Bronx)
Bronx, N.Y. 10453

Product: Ladies' Shoes

Contact Person: John Koltis, Pres.
212-993-4900

When Koltis Enterprises, Inc. was certified in October 1977, its sales were $3.8 million and employment at the time of certification was 100. Imports had adversely affected the firm.

Metro N.Y. TAAC diagnosed Koltis Enterprises's problems and assisted them in the development of its business plan which culminated in October, 1981 with Koltis Enterprises receiving a $790,000 working capital loan and a $210,000 fixed asset loan from the EDA. The firm also received implementation technical assistance which included a marketing and engineering study with emphasis on plant layout, pay incentive program and production scheduling.

This implememtation technical assistance which was supplied by Metro N.Y. TAAC and an outside consultant at a cost of over $80,000 resulted in savings, in the production area alone, at least equal to the over $80,000 spent on the total technical assistance.

The benefits of the Trade Act produced a better cash flow and production efficiency that allowed the company to remain successfully in business. The firm increased its sales from $3.8 million in 1977 to $5.2 million in 1981 while employment increased from 100 to 150 during that time.

Type of Trade Adjustment Assistance
Consultant Assistance: $67,000

Firm Name: Stevie Togs, Inc.
Address: 3527 Broadway
Kansas City, Missouri 64111
Telephone: 816/531-4333
Contact: Mr. Sam Greenstein, President

Stevie Togs, Inc., an apparel manufacturer with production facilities in Parsons, Kansas, had for 30 years manufactured children's apparel, with emphasis in the boys' jeans line. Imports of children's apparel made significant inroads into Stevie Togs' markets. Consequently, the firm applied for Trade Adjustment Assistance in September, 1980.

Stevie Togs' principal management had begun investigating the ladies' wear markets. Mid-America Trade Adjustment Assistance Center (TAAC) engaged an industry consultant to review Stevie Togs' operations and to investigate the feasibility of the firm's moving into the women's wear market. The study clearly showed that the firm should drop the boys' jeans line and move into fashionable ladies' sportswear.

The firm's financial condition was sound enough to enable it to finance required capital expenditures without outside assistance. Significant assistance in production and in supervisory retraining was required to assure a smooth and successful transition during the change of its principal product lines. A competitively-bid consultant contract was executed by Mid-America TAAC to provide the required assistance. The firm shared 25 percent of the cost of the technical assistance.

Cost-savings has been estimated by the consultant to be $115,000, and this figure is presently being documented. Employment at the time service began was 151 persons which was down from the 219 persons the firm employed prior to the adverse effect of imports. Sales volume has remained stable even in light of the deletion of the existing line, and Stevie Togs expects sales to show increases in the next year.

Type of Trade Adjustment Assistance
Guaranteed Loan: $1,500,000
Product Refinement Asst.: $18,500

Firm Name: Amplifone Corporation
Address: P. O. Box 4340
Brownsville, TX 78520
Telephone: 512/541-3461
Contact: Mr. T. K. Handing, Sr., former President

Amplifone Corporation had historically provided components to manufacturers of television sets. Imported components, particularly from Japan, had captured virtually all of the firm's markets. Amplifone took definite steps with its own resources to try to combat this situation: the firm moved from Illinois to Brownsville, Texas to reduce operating costs while diversifying into consumer electronics and into the design and manufacture of components for the growing data communication/computer markets.

Foreign competition continued to erode the firm's market; during 1978 one of the firm's two plants was closed when foreign interests purchased the domestic consumer T.V. manufacturer which had been purchasing the total output of that plant.

When assistance began in 1979, employment was at 137 persons (down from 165 in 1976); all of these jobs would have been lost without Trade Adjustment Assistance. Units of production had declined from approximately 622 thousand units to approximately 324 thousand units.

As a result of Mid-America Trade Adjustment Assistance Center's Diagnostic Review and Economic Recovery Plan an EDA guaranteed loan was made in February of 1980 providing greatly needed fixed asset and working capital financing. Without Trade Adjustment Assistance this firm would have been put out of business by imports.

The Mid-America Trade Adjustment Assistance (through the competitive-bid process) arranged for a consultant which designed a new product from an existing product line (a magnetless flyback - a flyback is used in CRT's, T.V.'s and other electronic video display devices). This new product was of the magnitude that a major firm, Atari, bought Amplifone. The new owner has expanded employment by 23.3 percent to 212 persons; sales have increased substantially and are expected to be up by 50 percent by mid-year over last year.

INFORMATION OBTAINED
FROM PUBLIC SOURCES

Type of Trade Adjustment Assistance
Direct Loan: $1,000,000
Guaranteed Loan: $3,000,000
Product Development Asst.: $10,000

Firm Name: Billy the Kid, Inc.
Address: 4171 N. Mesa, P. O. Box 9817
El Paso, TX 79988
Principal Product: Boyswear and other apparel lines

Billy the Kid, Inc. was founded in 1937 and has developed into a leading boyswear manufacturer. The firm experienced healthy increases in net sales until 1978 when sales began to decline due to the impact of imports on most apparel lines.

In 1979, the Mid-America TAAC began to assist the company by examining the firm's operations. From this initial assessment, it was determined that the firm needed to develop a business plan to reverse their declining sales levels and remain a viable company.

It was determined that an outside consulting firm who specialized in the apparel industry should be retained to evaluate the firm's operation and recommend appropriate solutions. A competitive analysis was also conducted to assess the firm's relative standing in the apparel industry and to assess any potential opportunities for diversification.

The investigation revealed that sales could be significantly increased through diversification into related apparel lines, and profit margins could be widened through the implementation of a company-wide cost reduction program. To enable the firm to successfully implement the recommended strategies, a $3 million guaranteed loan for working capital and a direct loan of $1 million for fixed assets was requested under the Trade Act of 1974.

In February, 1981 the requested financing was received. As a result of the technical and financial assistance obtained through the Trade Adjustment Assistance Program, net sales for the 39 weeks ended June 27, 1981 rose 18 percent, year-to-year, reflecting gains in unit volume and higher average selling prices due to changes in the product mix. Aided by a company-wide cost reduction program, margins widened and pretax income surged nearly 2-1/2 times. After tax earnings increased to 37.6 percent from 22.5 percent a year earlier, while net income nearly doubled to $2.08 million from $1.05 million during the same time period.

For the fiscal year ended 9/26/81, net income advanced 59 percent to $2.9 million, compared with $1.8 million a year earlier. Revenues totaled $111.0 million, up 20 percent from the $92.5 million generated during the same time period a year earlier. Aggressive expansion is continuing in domestic markets as well as in export sales to Europe, Japan and South America.

Type of Trade Adjustment Assistance
Technical Assistance: $275,000
assistance in production scheduling
Direct loan: $1,000,000

Firm Name:	Osceola Shoe Co.
Address:	9475 Crompton Road Osceola, AR 72370
Telephone:	501/563-6594
Contact:	Mr. William Page, Jr.

Osceola Shoe Co. formerly manufactured houseshoes. Their market was decimated by Taiwanese and Korean imports; therefore, late in 1979, the firm sought Trade Adjustment Assistance.

A review of the firm's operations disclosed that the firm, through significant adjustment in its marketing approach, could feasibly penetrate the market for casual shoes and for golf shoes. Also, the firm could regain a significant competitive edge through obtaining its raw materials in greater quantities and through improvements to its production scheduling. Osceola Shoe Company's working capital had been impaired from its loss of market share, so the firm applied for a direct working capital loan under terms of the Trade Act of 1974 (since private sector financing was not available to them) and entered an agreement to share in the cost of the production assistance to be provided under the terms of this same act.

The services of a major accounting firm were obtained under contract to develop the marketing plan and also to develop, install and refine a computer module to be used in production scheduling late in 1980. Consultant performance spanned all of calendar 1981 and is entering its final performance stage. The firm also took advantage of export opportunities presented through the Trade Adjustment Assistance for Industry program.

During the course of involvement in Trade Adjustment Assistance, the firm's employment increased from an average of 500 persons to approximately 650 persons or by 30 percent. Since the firm's production facilities are located in the delta farmland area of Arkansas, the impact in terms of diversification of employment opportunities in an agri-based economy cannot be overstated. Concurrently, its sales increased by 43 percent in calendar 1981 as compared to 1980, escalating from $14 million to $20. Substantial improvements were achieved in net profits during this same period.

Osceola Shoe Co. has historically shared half the cost of assistance provided under the Trade Act of 1974. In these final assistance phases, the firm is paying 100 percent of the required subcontract consultant cost associated with custom programming of software. As a result of the Trade Adjustment Assistance received, this firm is a healthy, viable employing unit in the communities in which it is located.

Type of Trade Adjustment Assistance
Production Assistance: $124,800
for improvements in manufacturing,
data processing and management.

Firm Name:	Tobin-Hamilton Company, Inc.
Address:	Mansfield, Missouri 65704
Telephone:	417/924-3223
Contact:	Mr. Joseph Guccione

Tobin Hamilton Company, Inc. is a manufacturer of athletic footwear. Imported shoes were beginning to capture an increasing share of its markets. The firm applied for Trade Adjustment Assistance in the latter part of 1979.

An initial review of the firm's operations revealed that in order for the firm to become more efficient and thereby more competitive, new plant layouts were required at both of its plants, and the warehouse system needed to be restructured. Improvement was needed in the operations of the firm's data processing system, and assistance was necessary in its organizational planning and development.

Mid-America Trade Adjustment Assistance Center (TAAC) executed a competitively-bid consultant contract for the services to be provided on a cost-shared basis to the firm, and the scope of work outlined above was accomplished.

Since entering the program of Trade Adjustment Assistance, the firm's sales increased from $10.5 million to $18 million. Its employment increased from 314 persons to more than 600 persons. The investment of approximately $100,000 in funds under the Trade Act of 1974 for the provision of adjustment assistance to this firm has been richly repaid in terms of increased productivity, increased competitiveness, increased employment and increased tax base.

Type of Trade Adjustment Assistance
Guaranteed Loan: $375,000
Marketing Assistance: $6,500

Firm Name:	Fairfax Mfg. Co., Inc.
Address:	Hwy 59, P. O. Box 218 Fairfax, MO 64446
Telephone:	816/686-3381
Contact:	Mr. James H. Hunter, President

Fairfax Mfg. Co., Inc. is a manufacturer of small wood products, principally gift items for men consisting of pipe racks, ashtrays and dresser valets. In 1975, its product line was copied by the Taiwanese and imported into the United States. These imported products were retailed at approximately one-half the price of Fairfax's products due both to the labor advantage enjoyed by the Taiwanese and also to the fact that the Taiwanese had no costs associated with the development of designs since they copied the products.

From 1975 through 1979, the imported products captured half of Fairfax's domestic market share. Consequently, Fairfax's employment decreased from 60 persons to 19. In October, 1979, Fairfax petitioned for eligibility to apply for Trade Adjustment Assistance. The firm was certified. Mid-America Trade Adjustment Assistance Center assisted the firm through the performance of a diagnostic review of its operations and the preparation of an economic adjustment plan which identified areas of financial and marketing assistance necessary to effect the firm's adjustment to its loss of market share to foreign imports.

The firm received approval of a $375,000 loan, guaranteed under terms of the Trade Act of 1974. Shortly thereafter, the firm's plant site was flooded. The firm was closed for six weeks while the flood damage was repaired. Without the financial assistance, the firm would not have survived the ravages of both a flood and of import impact. As production resumed, an outside consultant was engaged by Mid-America TAAC to provide in-depth assistance to the firm in the area of marketing. This assistance enabled the firm to diversify its product line and to enter the premium market. To date, the firm's sales have increased more than 25 percent--and they continue to increase. The firm's employment has stabilized at 20 persons.

JEROME INDUSTRIES CORPORATION - KENILWORTH, NJ

I. BACKGROUND

This company was formed in 1964 and is primarily a manufacturer of wall-mounted voltage transformers for charging various electronic equipment. Other products include battery chargers for industrial application and voltage converters for use by overseas travelers. Historically, sales were made to manufacturers of electric toys, calculators, video games, appliances and battery chargers.

The company was successful in increasing sales volume reaching a peak in 1977 of $2.5 million. The succeeding two years saw a 28% drop in sales volume and a substantial loss recorded in 1979. Declines were attributed to offshore competition principally from the orient. Most large original equipment manufacturers followed this trend because of price advantages.

II. TRADE ADJUSTMENT ASSISTANCE

The New Jersey Trade Adjustment Assistance Center provided assistance to the firm in the preparation of a petition which was accepted on April 11, 1979 and after investigation, on June 6, 1979, Jerome was certified eligible to apply for assistance under the Trade Act of 1974.

The New Jersey TAAC engaged an outside consultant firm to review the company's marketing, management, and financial situations and prepare a plan and develop strategies to enable the company to compete with imported products. The marketing study resulted in recommendation to specialize in smaller "job shop" orders involving design and engineering problem solving in the development of new products by Jerome's customers. The management review recommended a number of additions to the staff to relieve the owner of certain day-to-day operating details. The financial problems were pinpointed and addressed in the review. These include inventory controls, reporting procedures, cost controls and need of working capital.

Based on the above analysis and recommendations, an acceptable business plan was developed and incorporated in the company's loan application. The application was approved under the provisions of the Trade Act of 1974 and this has provided Jerome with sufficient working capital to carry out the various recommendations of the initial study. Financial assistance could not be obtained through usual sources.

To further assist the company in its recovery, additional consulting assistance is in process to establish management controls, improve quality, revise management structure, refine cost controls and order processing.

III. EVALUATION

The initial consulting assistance was successful in identifying the company's problems and provided specific recommendations. Following its recovery plan, Jerome has improved its operating performance and improved its position.

Jerome Industries Corporation

The loan enabled Jerome to carry out these recommendations and gave them the needed working capital to acquire inventory, carry accounts receivable and expand its marketing activities.

As a result of this assistance, Jerome has achieved an impressive increase in volume, 43%. One large order was achieved only because of the financial resources provided by the Trade Adjustment Assistance program. Their number of customers has increased from 183 to 208 in the last six months and employees now total 140 as compared with 102 at the time of certification.

We are hopeful that the assistance now being completed will further enhance the company's prospects for continued growth and overcome the impact of imported products.

WIRE CLOTH MANUFACTURERS INC. - MADISON, NJ

I. BACKGROUND

Wire Cloth Manufacturers, Inc. was founded in 1965 and operates as a fabricator of wire cloth or screen parts used in appliances and industrial processes. Most production orders were for small quantities requiring quick deliveries and to accurate specifications.

Sales peaked in 1977 at almost $450,000 but fell considerably in the following two years, due primarily to foreign competition in the fabrication of screens for smoke detectors and imports of high volume products such as extrusion screens for the plastic industry.

II. TRADE ADJUSTMENT ASSISTANCE

The New Jersey Trade Adjustment Assistance Center was instrumental in bringing the Trade Act program to the attention of the company and assisted management in the preparation of a petition which led to their certification in January, 1979.

Based on the TAAC's analysis of the company's needs, a marketing effort was deemed to be the major solution to the company's problems. An outside management consultant was engaged by TAAC to establish a manufacturers' representative sales organization to give Wire Cloth national coverage. Consultant was able to provide candidates and assist in the screening process to select the most qualified representatives. The selected representatives were provided with both written and verbal in-depth sales and motivational training to assure short-term results. A system of review was also established to monitor the representative's performance along with sales goals for each.

At a later date, an engineering study was made on the company's plant layout, methods and productivity improvements. Recommendations were made and adopted by Wire Cloth.

The company was able to finance the changes made in its operations and its cost sharing portion of the consulting assistance through regular channels and, therefore, did not require financial assistance available through the Trade Act program.

III. EVALUATION

It is difficult to measure the benefits to the company at this time because of the downturn in the economy. The new sales representatives have produced new business and as the program further develops, there should be a noticeable increase in sales volume.

The method improvements in their manufacturing process have been adopted but their impact on the cost of production has not yet been measured but certainly has led to more efficient operations.

Wire Cloth Manufacturers, Inc.

While the labor force has not been increased, there have been no additional layoffs.

Management has used the technical assistance provided by New Jersey TAAC to reverse the downward trend and is looking forward to the benefits of this assistance in the near future.

BOMAR CRYSTAL COMPANY - MIDDLESEX, N.J.

I. BACKGROUND

Bomar Crystal Company was founded in 1963 and incorporated in 1969 as a manufacturer of quartz crystals. The company progressed from a part-time mail order business to a thriving concern reaching a sales volume of $2.9 million in 1976. The next two years reflect a substantial drop in volume attributed to the influx of finished crystal from Japan, Hong Kong, Korea and Taiwan. This period also reflects a substantial drop in the domestic production of C-B radios, also due to imports. As a result, sales dropped more than 50% and substantial losses were recorded for the first time in the company's history. Within a three-year period, production employees dropped from 198 to 49.

Faced with these serious problems, the firm became interested in Trade Adjustment Assistance after first hearing about the program from his banker. The New Jersey Trade Adjustment Assistance Center aided the company in preparing the petition which led to the certification on May 3, 1979.

II. TRADE ADJUSTMENT ASSISTANCE

The New Jersey TAAC engaged an independent management consulting firm to review the firm's then current position and develop both short and long-term plans for stabilizing the business and returning the company to a competitive position. Studies were conducted on production methods, costs, quality, inventory control and engineering. The marketing review covered existing and potential markets, sales analysis and promotion, pricing policies and customer relations. The financial study reviewed expenses, budgeting and funding requirements to turn the business around.

As a result of these studies, it was determined that Bomar should broaden its market area into the OEM micro processor field as well as other communication markets which show the highest growth potential. To achieve this end, new equipment was needed and market/sales development had to be a major effort.

Bomar had already used to is maximum, the available short and long-term financing and, therefore, could only rely on the Trade Adjustment Assistance program to find its recovery through a direct loan. This was approved and has provided the company with the opportunity to acquire new equipment, develop a sales organization, and provide for adequate inventory to enter the new markets.

Additional consulting experience has been provided to establish a sales representative network and provide a company newsletter to keep customers and sales representatives informed on Bomar's product development. A specialist in the crystal field was also engaged to provide the company with the manufacturing know-how to produce new types of crystals used in the targeted market areas. The new production methods have enabled Bomar to manufacturer high-quality crystals in a variety of sizes.

III. EVALUATION

Without the Trade Adjustment Assistance in all likelihood further declines would have resulted accompanied by additional worker layoffs. With the consulting assistance, new markets are becoming available and manufacturing capabilities have expanded to accommodate these markets. These changes could not have taken place without the financial assistance (loan) provided under the Trade Act of 1974. When recovery plan is fully operational, Bomar is expected to increase employment to 96 workers and regain its sales growth.

[Subsequent to the hearing, the following was received:]

MID-ATLANTIC TRADE ADJUSTMENT ASSISTANCE CENTER,
Philadelphia, Pa, March 22, 1982.

Mr. JOHN J. SALMON,
Chief, Counsel, Committee on Ways and Means, House of Representatives, Longworth Building, Washington, D.C.

DEAR MR. SALMON: Enclosed is the corrected transcript of my February 26, 1982 testimony before the Subcommittee on Trade. I have also included several items which were referenced in the testimony and which I said I would provide later, but which I did not have with me at the time or which had been inadvertently left out of some of the packets of testimony which I provided to the Subcommittee beforehand. I respectfully request that these items be included in the record. These items are:

1. Listing from the New Jersey and Western TAAC areas of firms who support continuation of the program. These are names which I stated had been compiled too late to include with my submission, but which the Chair allowed to be provided after the testimony.
2. Two additional case studies from the New York Metro TAAC area.

Sincerely,

DANIEL J. FENNELL, *Director.*

Enclosure.

WESTERN TAAC

CALIFORNIA

California Debs Inc.
2660 S.Hill St.
Los Angeles, California 90007

(213) 232-8191
Walter Gibson-Seymour Fabric
Shoes

Tinkerton Foundreis
P.O. Box 506
Lodi, California 95240

(209) 368-2774
Jim Tinkerton
Cast Iron

Compatible
664 S. Anderson
Los Angeles, California 90023

(213) 268-3123
William Young
Shoes

Caprican Clothing
850 S. Broadway
Los Angeles, California 90014

(213) 627-5565
D'Ette Payne
Women's Clothing

Altech Corporation
1515 S. Manchester
Anaheim, California 92803

(714) 774-2900
Bill Fowler
HiFi Equipment

Admaster Corporation
416 Junipero Serra Drive
San Gabriel, California 91776

(213) 285-1121
Jack Clary
Calculators & Cash Registers

Jack Industries
709 S. Palm Avenue
Alhambra, California 90803

(213) 281-3945
Rene Albrecht
Bungee Cords

CEI
880 Maude Avenue
Mountainview, California 94043

(415) 969-1910
Alan Jensen
Video Broadcast Cameras

Silton Bros. Inc.
3535 S. Broadway
Los Angeles, California 90007

(213) 233-7151
Mr. R. Mc Lean
Apparel

Panama Glove Co. Inc.
1911 4th Avenue
Los Angeles, California 90018

(213) 737-8420
John Duncan
Work Gloves

Henry's Fashions
4232 Whitter Blvd.
Los Angeles, California 90023

(213) 262-4143
Yshemael Garcia
Clothing Subcontractors

J.R.M. Fashions
1200 Santee St.
Los Angeles, California 90015

(213) 749-2379
John McShane
Blouse Manufacturers

Messinger Inc.
15004 Oxnard Street
Van Nuys, California 94111

(213) 997-8495
Elliot Messenger
Jewelry

Sign of the Times
1050 Stanford Avenue
Los Angeles, California 90021

(213) 687-4000
Bernie Corbin
Handbags

Smart Modes
901 S. Broadway
Los Angeles, California 90015

(213) 680-4100
Julius Reines
Womens' Coats

Garry's Leather
2430 S. Hill St.
Los Angeles, California 90007

(213) 746-3564
Steve Matzdorf
Personnel Leather Goods

Sonal Manufacturing Company
1200 Santee Street
Los Angeles, California 90015

(213) 747-5572
Allan Rosenwald
Belts & Ties

Montessori
8655 S. Main St.
Los Angeles, California 90003

(213) 971-8223
Marie Yankee
Educational Toys

Ratner Clothes
730 13th Street
San Diego, California 92103

(714) 234-0111
Abe Kassam
Menswear

Pacific Accessory Corp.
3613 W. McArthur Blvd
Santa Ana, California 92704

(714) 957-1434
John Paterson, Sr.
Audio Stereo Components

Varmac Inc.
4201 Redwood Avenue
Los Angeles, California 90066

(213) 821-8071
George Hine
Fishing Pole Hardware

Orofino Fine Jewelry
15301 Ventura Blvd.- Plaza Level
Sherman Oaks, California 91403

(415) 366-4734
Bob McCarty
Ferros Dyecasting

Punch Press Products
1911 E.51st Street
Los Angeles, California 90058

(213) 581-7151
Ron Ryan
Metal Stamping & Forming

Crislu Corporation
141 Nevada St.
El Segundo, California 90245

(213) 322-3444
Lloyd Chrisfield
Jewelry

Auerback & Co.
1200 S. Grand Ave.
Los Angeles, California 90015

(213) 749-0131
Ray Auerbach
Men's Apparel

Sunweld Knitting Company
516 S. Anderson Street
Los Angeles, California 90033

(213) 263-9961
Bill Kay
Metal Fittings

Mica Corporation
10900 W. Washington Blvd.
Culver City, California

(213) 559-4223
Alan Lave
Laminates

McNamara & Peepe Corporation
1607 5th Street
Crescent City
Del Norte, California 95531

(916) 624-2454
Gene Youngreen
Lumber

Threshold
1832 Tribute Rd.-Suite E
Sacramento, California 95815

(916) 927-5061
Nelson Pass
Sound Amplifiers

Florod Corporation
3341 W. El Secundo Blvd.
Hawthorne, California 90250

(213) 679-8201
Rod Waters
Industrial Lasers

Kraft Systems Inc.
450 W. Calfiornia Avenue
P.O. Box 1268
Vista California 92083
(714) 231-1912
Wm. Athing
Controlling and tracking devices

Metlox Manufacturing Co.
1200 Morningside Avenue
Manhattan Beach, California 90266

(213) 545-4516
Kenneth Avery
Ceramic Dinnerware

RTR Industries Inc.
8116 Deering Avenue
Canoga Park, California 91304

(213) 883-0116
Robert Rehorst
Consumer Electronics

Pathcom Inc.
24049 S. Frampton Avenue
Harbor City, Calfiornia 90716

(213) 325-1290
Dell Gaines
Communication Equipment

Pacific Ascente Inc.
1766 N. Helm
Fresno, California 93747

(209) 252-2887
Gene Bricker
Outdoor Down Apparel & Sleeping Bags

Fashion Time Inc.
100 E. Adams Blvd
Los Angeles, California 90005

(213) 749-3475
Kevin Lehman
Contractor for Ladies Sportswear

Hollywood Needle Craft
3777 S. Main Street
Los Angeles, California 90007

(213) 233-4105
William Roen
Childrens Apparel

B&C West
350 Paul Avenue
San Francisco California 94124

(415) 952-8535
Stewart Schneck
Hydroponics

Accent Industries
4920 S. Halladay
Santa California 9705

(714) 979-0531
Ira Mallard
Macrame Hangings

WESTERN TAAC

NEVADA

Schrader Stove Co., of Nevada Inc.
4750 Highway 50 E. #3
Carson City, Nevada 89701

(702) 882-8685
Don Vanhorn
Woodburining Stoves

HAWAII

Maui Divers of Hawaii Ltd.
1520 Liona Street
Honolulu, Hawaii 96814

(808) 946-7979
Clifford Slater
Jewelry

WESTERN TAAC

ARIZONA

Optisonics
1802 W. Grant Rd.
Tucson, Arizona

(714) 324-4844
Henry Carter
Audio Visual Accessories

UTAH

Jolene Corporation
P.O. Box 1446
Provo, Utah 84601

(801) 373-3206
Don Geiss
Children's Clothing

COMPANY	SIC
A.T.P. Processors Lts. 1 Van Houten Street Paterson, NJ 07505	2262 Textile Printing
Acme Leather Sptswr.,Inc. 335 South Park Street Elizabeth, NJ 07206	2386 Leather & Cloth Coats
Al Acquaire Shirt Co. [illegible] Straight St. Paterson, NJ 07501	2321 Men's Shirts
B&B Coat Corp. 51 Madison St. Paterson, NJ 07501	2337 Ladies Coats
Bomar Crystal Co. 201 Blackford Ave. Middlesex, NJ 08846	3679 Quartz Crystals
Brighton-Best Socket Screw Mfg. Co. Green St. Teterboro, NJ 07608	3542 Socket Cap & Square Set Screws
Car-Flite Mfg.Co.Inc. 6 Willow St. Moonachie, NJ 07074	3694 Auto Parts
Chronar Corp. P.O. Box 177 Princeton, NJ 08540	3873 Electronic Components
Cooper Sportswear Manufacturing Co.Inc. 720 Frelinghuysen Ave. Newark, NJ 07114	2329 M/W outerwear
Deer Park Baking Co. South Egg Harbor Rd. Hammonton, NJ 08037	2052 Butter Cookies
Irving J. Dorfman Co. 6612 Broadway West New York, NJ 07093	2397 Schiffli Machine Embroideries
Eastern Laminating 75 Main Ave. Elmwood Park, NJ 07407	2231 Lamination of Textiles
Fabrite Laminating Corp. 70 Passaic St. Wood-Ridge, NJ 07075	2295;2269;3079 Prod.of Laminated Fabrics
Federal Casters Corp. 785 Harrison Ave. Harrison, NJ 07029	3429 Casters,Wheels & Steel Products
Hardware & Industrial Tool Co. Inc. 2607 River Road Cinnaminson, NJ 08077	3429 Garden Tools, Snow Shovels
Hartford Corp. 99 Jersey Ave., P.O. Box 85 New Brunswick, NJ 08903	30x79 Plastic Films
Janet Knitting Mills 155 Van Wagenen Ave. Jersey City, NJ 07306	2253 Knit Outerwear
Jerome Industries Corp. 136 Market St. Kenilworth, NJ 07033	3612 Battery Chargers & Trans.
Kem Mfg. Co. Inc. River Rd. & Maple Ave. Fair Lawn, NJ 07410	3714 Automobile Parts
John C. Kohaut, Inc. 15 Meeker St. West Orange, NJ 07052	2499 Wood Products
Korelle Industries 36 Mileed Way Avenel, NJ 07001	
Lambertville Ceramic & Mfg. Co. Inc. P.O. Box 128 245 N. Main St. Lambertville, NJ 08530	3269 Ceramic Wear Parts
Melissa & Me, Inc. Bldg.454 Raritan Center Edison, NJ 08817	2643 Polyethylene Film Bags
Meta Frame Corp. 41 Slater Drive Elmwood Park, NJ 07407	3231 Aquarium Supplies
Middletown Leather Co.Inc. 200 Valentine St. P.O. Box 607 Hackettstown, NJ 07840	3111 Leather

COMPANY	SIC
N & R Fashions 13½ Van Houten St. Clifton, NJ 07505	2337 Women's Sportswear
Novel Knit, Inc. 791 Paulison Ave. Clifton, NJ 07011	2253 Knit Outer-wear
Rainbow Dyeing & Finishing Corp. 20-21 Wagarow Rd. Fair Lawn, NJ 07481	2269 Dyeing & Finishing Textile
Ronson Corp. 1 Ronson Rd. Bridgewater, NJ 08807	3634 Cig.Lighters & Appliances
Royal Art Mfg. Corp. 160 Passaic Ave. Kearny, NJ 07032	2599 Furniture & Fixtures
Sally Gee 395 Broad Ave. Ridgefield, NJ 07657	2259 Knitwear
Sobel Brothers, Inc. 400 Barclay St. Perth Amboy, NJ 08862	3961 Costume Jewelry;pearls
Star Coat Mfg.Co.Inc. 251 First St. Hoboken, NJ 07030	2337 Ladies coats, blouses,raincoats
Torsion Balance Co. 125 Ellsworth St. Clifton, NJ 07012	3576 Scales
Triumph Knitting Machine Service,Inc. 18-20 Di Carolis Court Hackensack, NJ 07601	2258 Knitted Fabric
United Speaker Systems, Inc. 101 No. Park St. East Orange, NJ 07017	3651 Produces & Assembles Speakers
Victory Optical Mfg.Co. 1 Victory Plaza Newark, NJ 07102	3851 Eyeglass Frames
Voltronics Corp. West Street East Hanover, NJ 07936	3675 Precision Piston Trimmer Capacitor
Washington Knitting Mills 50 Harrison St. Hoboken, NJ 07030	2341 Women's under-garments
Wire Cloth Mfgr.,Inc. 133 Kings Road Madison, NJ 07940	3496 Wire Cloth Fabrication
J.O. Wos Knitting Mills 237 Main St. Cliffside Park, NJ 07010	2253 Knit Sweaters & Dresses
York Luggage Corp. 204 North Union St. Lambertville, NJ 08530	3161 Mfg.of Luggage

KELLY SLAX, INC.
1384 Broadway
New York, N.Y. 10018

Product: Men's and Women's Pants

Contact Person: Joseph Kelly,
President
212-575-9070

When Kelly Slax was certified in 1980, its sales were $6.3 million, down from sales of $10.7 million in the previous year. Direct employment by Kelly and the contractors it used was 528 in fiscal 1979, down from employment of 954 in the previous year. Imports from the Far East had seriously affected Kelly's business and chances for survival.

Metropolitan New York TAAC diagnosed Kelly Slax's problems and business opportunities and assisted the firm in the development of its strategic marketing plan for recovery. These efforts culminated in September 1981 with Kelly receiving $1,500,000 of financial assistance, of which $1,000,000 was a direct loan by EDA and $500,000 was a bank loan guaranteed by EDA. The proceeds of the loan were used for fixed assets ($285,000) and working capital ($1,215,000).

The benefits to Kelly of the trade adjustment assistance program were significant...survival and growth. Because a prerequisite to obtaining financial assistance was the submission of a written adjustment strategy, Kelly crystallized into a consistent strategy what had previously been only ideas. In addition, the prospect of Kelly's obtaining financial assistance influenced the bank to liberalize the existing arrangement with Kelly at a time when banks were generally retrenching their portfolio of loans to the apparel industry. Later when Kelly received notification from EDA of approval of its loan application, Kelly was able to get increased trade credit to buy raw materials and generate enough sales to remain healthy. When its loan closed in September 1981, its financial condition and chances for growth were obviously further enhanced.

Despite financial assistance, Kelly probably would not have survived if it had not had an excellent strategic marketing plan. This plan led to the firm's adjusting to negative conditions caused by imports. Kelly adjusted by significantly diversifying into other product segments and distribution channels. From 1979 through 1981, Kelly's reliance on menswear decreased 97% of company sales to 51%, and womenswear increased from 3% to 49%. From 1979 through 1981, Kelly's reliance on chain store and catalogue channels decreased from 100% of company sales to 56%, and specialty department stores increased from 0% to 44%.

The benefits of trade adjustment assistance to Kelly were survival and growth, resulting from successful trade adjustment and increased working capital. Since becoming certified, sales have increased from a depressed level of $6.3 million to $11.2 million and employment from 528 to 838.

TAAC continues to assist Kelly Slax in its trade adjustment. Kelly will receive an estimated $125,000 of additional technical assistance. The assistance will be to improve productivity and lower costs in production and distribution operations, and to identify profitable market segments for further diversification. Because Kelly's manufacturing facility is in Georgia, this technical assistance project will be a cooperative one involving Metro N.Y. TAAC, Southeastern TAAC, and Kelly.

Dame Belt & Bag Co., Inc.
636 Eleventh Avenue
New York, New York 10038

Product: Belts & Handbags

Contact Person: Jeffrey Mehler
212-581-8030

Amid the current slump in the garment and allied needle trades industry,Dame has continued to increase its sales since being certified in 1976.

Sales will have increased from 3 million in 1976 to approximately 15 million dollars by the end of 1982. N.Y. Metro TAAC has helped Dame perform this dynamic turnaround through assisting them in obtaining an interim Small Business Administration loan of $300,000, plus loans from EDA and technical consulting assistance.

The job impact realized by Dame and New York City through the Trade Act of 1974 assistance was 200 jobs saved and an additional 135 added jobs. Now, Dame employs a total of 335 people and employs hundreds more through the contractors it utilizes. Also, since Trade Act help, the company has seen earnings jump 7 times since 1977.

From a total loan program of one million dollars ($600,000 F.A., $400,000 W.C.) through EDA - Dame has been able to purchase new production equipment, purchase raw materials at volume discounts, and increase it's finished goods inventory. All of this has helped to reduce costs, and enabled the firm to service it's customers better. In addition, Dame added an Oleg Cassini designer line and also diversified into small leather goods (wallets, keychains, etc.) thus finding a niche which the imports did not affect.

Dame's performance is an inspiration to the entire handbag industry and to all troubled firms - especially when we take into consideration that they have amortized nearly $750,000 of their $1,000,000 loan.

Chairman Gibbons. Thank you.

We will now hear from Mr. Weikel.

STATEMENT OF CHARLES W. WEIKEL, PRESIDENT, KMMCO, INC., EAST DETROIT, MICH.

Mr. Weikel. Good morning, Mr. Chairman, Mr. Vander Jagt. I am Charles W. Weikel, President of KMMCO, Inc.—we pronounce that Kemco—located at 16410 Stephens Drive, East Detroit, Mich., 48021.

I am here this morning to tell you briefly about the impact of imports on KMMCO and what assistance we requested and received under the Trade Act assistance program. I will briefly review the following areas:

First, a description of our business;

Second, the circumstances which caused us to apply for assistance;

Third, what assistance we have received and its value;

Fourth, our view of our future.

I would like to state initially that the directors and officers of KMMCO agree with the objectives of the administration and many in Congress to control Government expenditures, particularly to reduce budget deficits as a means of controlling inflation, reduce interest rates and put the economy on a sound basis again. We recognize that the difficult decisions which this committee must make involve differentiating between programs that may be desirable but which may not be equally effective or useful in achieving the realistic goals required today. Such decisions require both knowledge of the facts and wisdom. I hope my comments today will be helpful in your deliberations.

Let me briefly describe our business. KMMCO is a family-owned business. It was founded in 1940 as a supplier of automotive exterior trim to the major automobile manufacturers in Detroit. Until the late 1950s trim was almost exclusively chrome-plated steel. It takes the form of the body side mouldings, window trim, rocker panels, wheel opening trim, headlight bezels, et cetera. We manufacture the product to the specific design of the manufacturers, mostly on large presses, roll form machines, and metal bending machines. Additional processes in our plants include painting, anodizing, welding, buffing, et cetera.

Our customers in order of sales volume are General Motors, Ford, Chrysler, Volkswagen of America, and others with about 98 percent of our sales dollars automotive. Our best year was 1979 when our sales were $31 million, our peak number of employees was about 1,000 spread between our plants in East Detroit, Mich.; Pontotoc, Miss.; Clanton, Ala.; and Atlanta, Ga. In 1979 we supplied about 20 percent of the OEM automotive trim market.

We have been affected both directly and indirectly by imports. Directly by a Canadian company that has moved aggressively into the U.S. automotive trim market and with the help of favorable wage rates, Canadian Government assistance and other lower costs have been able to underbid KMMCO and our U.S. competitors consistently. We have been affected indirectly also by the well-publicized flood of automobiles made in Japan, which, of course, arrive in this country fully assembled and with no need for domestic suppliers of trim.

Our current level of business is $16 million a year—about half of 1979's sales level. The automobile industry is in a depression which started over 18 months ago. Foreign built trim and automobiles are major causes of that depression and caused us to close our Mississippi facility in November 1981. Since 1979 we have been forced to terminate the employment of approximately 500 people in this and other locations.

Now about our application for assistance. KMMCO applied for assistance under the Trade Adjustment Act in the late spring of 1980. A diagnostic analysis under the auspices of the Midwest Trade Adjustment Assistance Center was made of our entire operation including a proposed major diversification into a process called structural foam plastic. We viewed this opportunity as an excellent diversification for us and the TAAC diagnostic analysis confirmed our conclusions.

The structural foam industry is a billion dollar industry in the United States today, growing rapidly during the past several years. This growth is expected to continue. One of its most practical and cost effective applications is in housings for office machines such as photocopy machines, typewriters, and computer cabinetry and one literally can see these products everywhere, every day. The potential applications for structural foam seem almost limitless and are being developed daily by the industry. Such applications involve the replacement of labor-intensive, cost-ineffective assemblies, and complex parts of metal or other materials.

While KMMCO was able to hire experts and do detailed planning in the field of structural foam, the devastating effects of the automotive depression considerably weakened KMMCO's financial ability. When $3 million was required, KMMCO was unable to find that amount through conventional banking sources

Again, the Trade Adjustment Act came to our aid and with the assistance of TAAC a presentation was made to the Economic Development Administration first in Chicago and then in Washington for a $2.3 million loan guarantee.

Our application was approved in January and finally closed in July 1981, giving us the $3 million necessary to finance the venture.

Since January KMMCO has built three state-of-the-art structural foam machines to our proprietary design and they are in production today producing cabinetry for the Burroughs Corp. in Detroit. In the weeks immediately ahead, KMMCO will be manufacturing parts for such companies as IBM, Xerox, Pitney-Bowes, Hazeltine, Wang, and so on.

We are looking forward to being one of the leaders of the structural foam industry in a very short time. By June 1983 we expect to hire an additional 100 employees at our East Detroit plant and we expect the growth beyond then to be impressive.

Considering the size and complexity of the effort, for a small company like KMMCO the entire project has gone exceedingly well. Beyond the U.S. market we have found significant marketing opportunities in Canada and overseas. The first parts we made were shipped to Scotland for Burroughs.

Encouraged by this strong beginning, we are optimistic about our future and our ability to help reemploy U.S. citizens. Again under provisions of the Trade Adjustment Act and with the help of the Midwest TAAC office, we are planning a market survey of the European Common Market for both structural foam product and our proprietary presses. The survey will commence within 30 days.

On the metal trim side, our automotive sales seem to have stabilized and our severe cost reduction program is beginning to pay off. Here, too, TAA has been of help. We took advantage of the technical assistance provisions of the act and received Midwest TAAC's assistance in analyzing our energy usage. Heat and electricity alone cost us $700,000 in 1981.

While the exact cost saving is difficult to determine with falling volumes and a plant closing, we believe these costs have been reduced by as much as $90,000 a year. These important savings to our country and our company would probably not be realized had it not been for TAA.

Finally, TAA provided KMMCO with technical assistance in market research designed to identify possible work we can perform for specific companies and industries in the Southern States.

The marketing emphasis focuses on our unique strengths: anodizing and metal slitting with the objective of helping us diversify away from the mature automobile industry into new areas of growth. We hope this will strengthen our base and restore our Alabama plant, at least, to the level of employment it enjoyed as recently as 2 years ago.

This is KMMCO's success story, a result of our direct involvement with the Trade Adjustment Act. We are thankful for its availability. Without TAA and EDA, we could not have entered the major diversification of structural foam, would probably not have realized the energy savings we are now achieving, nor done the marketing research and planning necessary to position ourselves for the mid-eighties.

Because of the Trade Adjustment Act, KMMCO has a very real chance of reversing the employment trend for the company and the communities in which it operates. As I understand, that is what the act was intended to do.

Chairman GIBBONS. I thank you for your very fine statement.

Mr. Lopez?

STATEMENT OF HUMBERTO LOPEZ, PRESIDENT, JOY FOOTWEAR CORP., HIALEAH, FLA.

Mr. LOPEZ. Yes, sir.

I would like to read a brief statement of what the trade adjustment assistance fund has done for Joy Footwear.

The Joy Footwear Corp. was founded in 1971 as a manufacturer of casual footwear and athletic shoes generally made of canvas upper components and rubber soles. Sales in 1976 had reached $5.7 million in sales, comprised mostly of canvas basketball shoes. We employed approximately 260 persons.

By 1977 sales had declined from the 1976 high of $5.7 million to $4.2 million. Employment was down from 260 to 160 employees.

In 1977 Joy Footwear Corp. filed a request for trade adjustment assistance with the Department of Commerce. A national consulting firm was provided through the trade adjustment program to assist the company in developing a strategy to overcome the problem of import impaction.

The consultants, together with the management of Joy Footwear, prepared a tactical plan which included the following elements:

First, a consolidation of product lines, with concentrated effort in certain product lines and market segments;

Second, an improvement in both the quality and quantity of the sales force;

Third, the purchase of production equipment, including two additional injection molding machines and molds for jogging shoes. These purchases would allow Joy Footwear to manufacture the jogging shoes needed to meet planned sales projections;

Fourth, the installation of sewing machinery work aids and revision of the work measurement system to improve productivity and reduce labor costs.

Financial assistance was provided through the trade adjustment assistance progam to support Joy Footwear's strategy. A combination guaranteed/direct loan was approved to supply working capital for the new marketing strategy and to purchase the new equipment for the productivity improvement strategy.

Technical assistance was approved to provide 12 person-months of on-site industrial engineering expertise to restructure the work measurement standards and install machinery work aids.

We believe the trade adjustment assistance program for firms is a practical, cost effective way to support American industry in adjusting to the free trade policy, and I would like to recommend to the committee that it be included in the forthcoming budget.

[The prepared statement follows:]

STATEMENT OF HUMBERTO LOPEZ, PRESIDENT, THE JOY FOOTWEAR CORP.

My name is Humberto Lopez, and I am president of The Joy Footwear Corporation, which is located in Hialeah, Florida. I am a native of Cuba and immigrated to this country in 1960. I became a United States citizen in 1967. I attended Georgia Institute of Technology in Atlanta, Georgia, receiving a degree in Industrial Engineering in 1957.

The Joy Footwear Corporation was founded in 1971 as a manufacturer of casual footwear and athletic shoes generally made of canvas upper components and rubber soles. We were a relatively successful company and by 1976 had reached $5.7 million in sales, comprised mostly of canvas basketball shoes. We employed approximately 260 persons.

In the years following 1976, the nylon and vinyl jogging shoe became very popular, and the market for basketball shoes and canvas shoes declined. Joy Footwear wanted to manufacture jogging shoes but was unable to attain any degree of success in this market because of the market being flooded with cheaper imports from Taiwan and Korea. Price wise, Joy Footwear was unable to compete with the imports because it lacked the ability from a productivity standpoint to make up the difference between American and (cheaper) foreign wage rates.

By 1977 sales had declined from the 1976 high of $5.7 million to $4.2 million. Employment was down from 260 to 160. As the result of declining sales and unprofitable operations, the company was financially weak and unable to borrow money in the private sector.

In 1977, Joy Footwear Corporation filed a request for Trade Adjustment Assistance with the Department of Commerce. The firm was certified as eligible to request assistance and did so by requesting help in the preparation of a strategic business recovery plan.

A reputable national consulting firm was provided through the Trade Adjustment program to assist the company in developing a strategy to overcome the problem of import impaction. The consultants audited all company operations to identify the problems and opportunities of the firm. The consultants, together with the management of Joy Footwear, prepared a tactical plan which included the following elements:

1. A consolidation of product lines, with concentrated effort in certain product lines and market segments;
2. An improvement in both the quality and quantity of the sales force;
3. The purchase of production equipment, including two additional injection molding machines and molds for jogging shoes. These purchases would allow Joy Footwear to manufacture the jogging shoes needed to meet planned sales projections.
4. The installation of sewing machinery work aids and revision of the work measurement system to improve productivity and reduce labor costs.

The plan was submitted to the Department of Commerce and subsequently approved, thus allowing Joy Footwear to receive additional technical and financial assistance to implement its recovery plan.

Financial assistance was provided through the Trade Adjustment Assistance Program to support Joy Footwear's strategy. A combination guaranteed/direct loan was approved for $1.75 million to supply working capital for the new marketing strategy and to purchase the new equipment for the productivity improvement strategy. Technical assistance was approved to provide 12 person-months of on-site industrial engineering expertise to restructure the work measurement standards and install machinery work aids.

As a result of the production efficiency program, manufacturing costs were reduced by 15 percent. Some productivity savings were passed along to the employees allowing them to increase their hourly earnings. The technical assistance, together with the new working capital, provided the basis of Joy Footwear's active pursuit of the new jogging shoe market.

Sales for 1981 were $16 million—up from the 1977 low of $4.2 million. Employment, too, was up—from the low of 160 to approximately 600. The company employs mostly female Spanish-American workers in the Hialeah-Miami area.

In 1981, Joy Footwear generated more than $6.4 million in wages and salaries. Tax revenues for one year's wages exceeded the $1 million direct loan made to the firm under the Trade Adjustment Assistance Program.

Based on my company's experiences, I can testify to this Committee that the Trade Adjustment Assistance Program for firms is a very beneficial program. Today, Joy Footwear is a successful firm, but the battle against imports is not over. Joy Footwear is continuing to experience difficulty in competing with foreign labor, especially now that the Orderly Marketing Agreement is no longer in effect. The company needs to continue to take advantage of available computerized stitching equipment that will increase the productivity of our workers.

I believe the Trade Adjustment Assistance Program for firms is a practical, cost effective way to support American industry in adjusting to the free trade policy, and I would like to recommend to the Committee that it be included in the forthcoming budget.

Chairman GIBBONS. Let me say that all four of you gentlemen, it is a pleasure to hear you. I feel a little bit vindicated. Some parts of this program work pretty well and other parts have not been used as imaginatively as I hoped.

I guess my main question is for the budget planners of the Nation, can American industry do all this without trade adjustment assistance? What do you all think?

Mr. LEVY. May I?

Chairman GIBBONS. Yes, sir.

Mr. LEVY. Hell, no. No way. I have tried for 18 years before getting involved in it. I tried to set an example for all other industries in America, Mr. Chairman. I think I did. I think the gentlemen who might be here from that department of government can verify what I am going to say.

I gave of myself to help the American businessman help himself. I have spoken before on their behalf and have given consultations to any American businessman who came to New York and sought me out. I gave almost half of my last 5 years to this program, to put it over, to help make it successful.

At my own expense, as the ambassador for the city of New York, I was recently sent to Rome by Mayor Koch. Our very fine, Mayor Koch. God bless him. At the same time I had the opportunity to represent the U.S. Government to talk about exporting programs which came from a lot of work I was involved in under the assistance I received from the Government.

We opened accounts for Calvin Klein and Halston. For many years American designers were considered second-class designers. If it wasn't French, if it wasn't Italian, it wasn't good. Today we have made our mark.

We in the American industry are now greatly excited about the young people we have trained from this program. Many of these people are now in business for themselves. They are under this program, under this training. We screen them and educate them.

I must say that we have very few people that we work with who had any real training. I want to make a statement about the income of these people who probably would be secretaries and bookkeepers today who are doing things that they had the talents for that just had to be developed and encouraged.

We did that for them. I talk to most of them on a day-to-day basis. I ask them what are you now making. The lowest I have heard is $25,000. I have heard some of these young people are now making $75,000 to $100,000 income. It is common to hear $45,000 or $50,000.

I have encouraged many other industries to get involved with this program. I am sure they have thanked me. I believe in this program. I am a great believer in this program. We have to help other American businessmen.

Chairman GIBBONS. Was it the help that it gave you all, or the technical assistance that it gave you all, or the opportunity for a loan that it gave you, or a combination of all of that?

Mr. WEIKEL. I can speak for myself by saying it was the practical, everyday nitty-gritty assistance that I got. When you are in the automobile business, and the business has gone to hell—it is literally a depression in the area of Michigan, as Congressman Vander Jagt knows well—your banker gets kind of nervous.

To particularly come forth with a hare-brained scheme to diversify at a time you have been losing money for 3 years in a row and say I would like to spend $3 million on a new idea, he gets very skittish.

The practical analysis that was done by TAAC with us, the support we got from EDA in the form of the loan guarantee, made it possible for us to move into this area that we would not have been able to move into otherwise.

To be very frank, I would have been reluctant to spend the kind of money, even though I know it was worthwhile, for market research, for the aids to direct company where we ought to position ourself.

I would be reluctant to spend the money for the energy research to save $90,000. I wasn't positive it was there, but I was darn sure it was there. With discussions with these energy experts that

TAAC dug up for us, we found it. It was just the practical, everyday nitty-gritty help. It wasn't things out in the future.

Mr. LOPEZ. It was a combination of all. For one thing, the financial aid allowed us to concentrate our operations, by getting the financial aid we get the creditors and we get all of that area straightened out and off of our back.

The technical aid helps us in the day-to-day operations to be an extension of what we have. They help us with the marketing, they helped us to formalize a marketing strategy, to set up a sales force and production facilities, to implement work standards.

There was no real breakthrough in the state of the art. There was nothing that we came out with, computerized stitching or anything of that sort. It was more of commonsense and an extension to our facilities.

At that time our facilities were extremely taxed because we were cutting down in people. Some of the supervisory personnel were sort of abandoning the ship. We think that every one of the things helped us.

There is no guarantee that we would lose to imports because imports can change every day. But certainly it improves our position and diminishes our possibility of going under.

Mr. LEVY. I would like to make one statement based upon what the gentleman said because I get nervous when I get in front of a mike.

Chairman GIBBONS. We all do.

Mr. LEVY. You don't get as nervous as I do, I will tell you this with the technical assistance and the financial assistance that we received as an industry and individual firms received, I was able to sponsor 50 or 60 seminars to educate my people. They didn't know what a new market was.

We talked about promotions and publicity and public relations. I will never forget one day in the early days I mentioned, well, I want to talk about the PR programs. A hand went up because my people are told if at any time you want to, ask questions. They said, what does this have to do with Puerto Rico. I said PR is publicity, public relations. They didn't know.

I told the story last week when I appeared before another committee that in talking to these people—and we look at their products—and they said, well, this is going to the dogs, I can't sell this. I said, well, why don't you sell this to the lamp industry. You have a good item. He never thought about it.

We educate. We talk to them. We put about 8 or 10 of our people who are suppliers in new markets. They are not aware of them. They didn't have the background. They didn't have the education. They didn't have the technology.

These studies help give us that. In fact, this study that I had the good fortune of being a part of changed the face of the handbag industry in America. Come March 15 we open up with our fall market. That market used to be late May, early June. We found we were wrong, not relating to fashion.

I could go on and on, but I don't want to take advantage of your kind offer to be here before you, sir.

Chairman GIBBONS. Well, you know the reason why I bring this up is that we often look at Japan and wonder why they have been so enormously successful. One thing about Japan is they have improved their management skills tremendously. You say TAAC gives you an opportunity to do that.

They also have a way of government and business not being hostile to each other. If you check closely, you do not find them subsidizing their industry, but there is not an antagonistic feeling that we have. At least it is not apparent to America that there is. They are just using techniques that are not really startling.

They seem to also have a better system of getting capital, particularly into distressed industries, ones where people sort of lost hope and the bankers got scared. They seem to have a better system.

I don't know exactly how they do it, but I am impressed that was being done, and what can be done is not that radically different than what we have been doing. It is just a matter of perfecting our management skills and changing some of our attitudes.

Mr. FENNELL. Our experience confirms the remarks by Mr. Weikel. Frequently we find a company, even one managed in a pretty savvy way by a pretty savvy person, to be tentative, especially if it is in financial difficulty, about proceeding in certain directions that might be very instrumental to its development. In periods of decline, management becomes more uncertain of itself and its resources. They may be thinking that past decisions have resulted in mistakes that put the company into the position it is in. They decide to hold tight.

Technical help from outside the company can enlarge management's perspective and identify new opportunities. For instance, strengthening something like strategic marketing is a very practical aid, since this is one of the things least understood in small business.

This consulting help in operation and forecasting builds managers. A lot of people that we deal with are exceedingly entrepreneurial even though they are not always the best trained managers. One of the things that has really hurt their companies is the dampening of entrepreneurial spirit due to the constriction of operations.

When you enlarge the managerial perspective, when you fire it with some additional information—and real possibility and direction is backed up by genuine planning—that entrepreneurial ability emerges again. It is better rooted then, in firmer soil.

We had a firm, for instance, that was producing goods cheaper than imports. It was a very large, very substantial, very, very quality conscious children's clothing manufacturer. But management was fearful of taking on some of those imported goods. They didn't know that they could actually sell their products more cheaply than those which were coming in from abroad. They could compete at a price advantage.

Now that may not seem like a huge thing, but it is something that we pointed out to the company. We are reinforcing the importance of gaining that kind of information, at a certain cost, and making a routine investment in keeping it current. So, that information is as a basis for future decisions.

A second point relates to the chairman's statement about Japan getting capital into distressed industries. This could come down to a question of triage in our country. If these people are really losers, why not let them fall by the wayside? To answer that, we must ask what kind of society do we want to be?

We see that industries in this country are no longer producing some basic goods. Certain goods can not even be obtained in our own country even by our Government procurement agencies because of the erosion of the industrial base.

We believe that the mix of the industrial base and the strength and health of that industrial base is genuinely supported by a program of this sort, which directly serves the trade policy in the United States.

Chairman GIBBONS. Mr. Vander Jagt?

Mr. VANDER JAGT. Thank you, Mr. Chairman.

I have been very impressed with this panel, with your testimony individually, and also the panel overall. You really have given us an overview of handbags and footwear and the automotive industry.

I was impressed, Mr. Levy, with the program bringing young people into the design of handbags, where instead of copying the European designs we are creating new ones.

I was impressed, Mr. Fennell, with your example of the Philadelphia center for footwear that now is supported almost 100 percent by the industry itself.

Mr. Weikel, any automotive firm in Michigan or aimed at automotive originally that is adding employees rather than laying them off is very impressive to me.

Mr. Lopez, what happened to Joy Footwear is an exciting story.

But what impresses me most overall is you represent industries that were absolutely, totally devastated by imports. Now the mood of your testimony and experience is one of hope and optimism for the future and enthusiasm for going out there and competing, for expanding and creating new jobs.

It leads me to think that our chairman, who managed to get this trade adjustment assistance program through in 1974 over the combined opposition of the AFL-CIO and the Nixon administration—perhaps some of it has not worked out so beautifully—ought to be very, very proud for this phase of the program under the Commerce Department. As you said, Mr. Fennell, this program is aimed not as the Labor Department portion of it, helping people who have lost jobs, but this program under Commerce is helping people to keep the jobs that they have.

I would like to ask you, though, Mr. Fennell, I guess one of the reasons that the administration is now recommending the elimination of this program is, as you acknowledged, and which I think is understandable, because there were a number of bad loans, we had closings in 1981, and already in 1982.

I thought I heard you testify that even with those bad loans, that even the loan portion of the program has been self-sustaining. Would you just comment on that?

Mr. FENNELL. That is correct.

Mr. VANDER JAGT. That is correct even with the bad loans?

Mr. FENNELL. Even with the bad loans.

Mr. VANDER JAGT. I understand why the loan portion of it is necessary. I am sure Mr. Weikel, as important as the technical assistance was, that you perhaps couldn't have made it without the loan backing up.

I was also impressed with the example where a $500,000 loan under the program generated $17 million in private financing. But if the only way to save the program was to eliminate the loan portion of it, and I realize you would not want its elimination, would you recommend saving the rest of the program and, if so, then what dollar figure could we have to keep it going?

Mr. **Fennell**. Congressman, I wish the administration had asked me to prepare its budget. I think that the technical assistance is an extraordinarily important ingredient. I would not recommend the loans without the technical assistance. However, as I indicated, the loans are an important adjunct.

Firms pay for our technical assistance. They don't pay 100 percent, although in some cases they may pay close to that; but by law they must pay at least 25 percent. Sometimes, this technical assistance will be effective without additional capital.

We are in touch with firms right at the point where they are tentative about what they should do with the business. They usually do not want an investigation of their problems. They know where they are. They are in trouble.

There are some firms who really do need capital but do not have access to capital markets. The Trade Act loans create this opportunity. That, I think, has been important.

A critical change in the program has been to tie the loans to technical assistance; so that we can say to management:

> Look, here are the operating factors in the critical problem areas that must relate to one another in a particular way, and the remedies are phased in this way, and these are the milestones you have to reach. In order to achieve these milestones, these are the resources that are necessary for each phase of activity and we can find them, we can bring them to bear.

As I indicated, more and more we are going to the commercial markets to begin with; and before that, we see what kind of cash can be generated from internal operations. But sometimes these sources are not sufficient.

But the Trade Act loans are really resources for phasing the response by a firm to its operational problems. If that phasing is well-crafted, the loans are much more secure.

Perhaps I have gone beyond your question.

Mr. **Vander Jagt**. I again thank each member of the panel. It has been an outstanding panel. It is just one man's opinion, but this program really is what President Reagan is talking about when he talks about rather than giving the man a fish, teaching a man how to fish——

Mr. **Fennell**. And cut bait.

Mr. **Levy**. Can I make one statement, because of the CBI coming in. This will have a devastating effect, of course, on the small businessman right now. You know, my type of companies and the people I am speaking for work with sewing machines, sewing through the good efforts of the technical assistance.

They were not educated as so many of us in the garment and rag business in New York who came from overseas and went into business and knew how to make a product and get sales reps to sell it.

The education stopped at that level. As long as they were timely right with whatever they were producing, it sold.

But then we had to compete with the ever changing of fashion, marketing, and merchandising. There was lots of support. These people have given that to us. I hope they can give it to other people.

We need it in America. We need it more with the CBI coming in. So I hope we really search our souls of how this is going to reflect on the small American businessman with the problems that CBI will probably bring to the American people.

Chairman GIBBONS. Your testimony has been very helpful in helping us evaluate this program. Without claiming too much credit for it, let me say that trade adjustment assistance really goes back to the early sixties. When we started working on this in the seventies, we couldn't find that any of the programs had been used. So finally in the seventies we did modify.

There is a long learning cycle in all of these programs. It has been far too long in the trade adjustment assistance area.

The Chair is going to say thanks to the panel and allow you to leave.

I will say to the other witnesses today, the Chair has a luncheon engagement. It has been longstanding and I have to keep it. Besides, I am hungry. I will be back at 1:30. If you are here at that time, we will take you up then.

There is a cafeteria, for those not aware of it. I won't tell you the food is good, but it is quick.

[Whereupon, at 12:35 the subcommittee recessed, to reconvene at 1:30 p.m., the same day.]

AFTERNOON SESSION

Chairman GIBBONS. Our first witness is Mr. Winfield A. Schuster, president of the Hayward-Schuster Woolen Mills of East Douglas, Mass.

While you are coming to the table, Mr. Schuster, let me say I am sorry I had to break for lunch. I had someone I couldn't disappoint.

STATEMENT OF WINFIELD A. SCHUSTER, PRESIDENT, HAYWARD-SCHUSTER WOOLEN MILLS, INC., EAST DOUGLAS, MASS.

Mr. SCHUSTER. Mr. Chairman, the hour is late. I will be just as brief as possible.

I am here to support generally the international economic policy activity of the Commerce Department, but especially to support the trade adjustment assistance program.

Our company and its forebearers have been in the woolen industry in Massachusetts for almost 125 years. We are manufacturers of apparel fabrics for the menswear, womenswear, and children's trade, as well as being an important source of supply for the Defense Department. Normally we employ some 500 people, but currently, because of the very depressed conditions in the industry, are down to less than 300.

The company operates under a labor contract with the Textile Workers Union of America, AFL-CIO. In 1936, this mill and the

Textile Workers Union consummated the first formal written contract ever employed in the woolen industry.

In 1930, when I first entered the woolen industry, there were over 300 woolen mills in the United States. The now defunct American Woolen Co. as late as 1954 operated 27 mills. The tremendous shrinkage and demise of the industry has now left it with only about a dozen or 13 apparel mills to supply the needs of the entire country and the military.

Within the past 3 or 4 months two of the old and long-established woolen mills in New England have gone out of business and are now being liquidated. If this country was at war, there is very, very serious doubt that our small remaining industry could successfully provide the needs for both the military and the civilian demand.

The impact of foreign wool fabrics on the American woolen business is nationwide and very serious. I limit myself, however, to those imports relating only to types of wool fabrics produced at our own mill.

Two of the most important fabric areas in wool manufacturing are the men's sportcoat and women's sportcoat types, 10 to 13 ounce fabrics. This lightweight wool fabric area is being subjected to the heaviest attack by foreign competition. In this one very important wool fabric area, for the first 10 months of 1981 all foreign imports increased by 197 percent and from Italy alone by 746 percent.

It must be noted, however, that the recently renegotiated agreement on textile trade provides for some improvement to the industry. However, to be effective, the terms of this bilateral agreement must be vigorously enforced through negotiations with individual exporting countries.

In 1977, in an attempt to modernize and become more competitive, our company purchased new high-speed American textile machinery from the same manufacturer who had provided us looms for over 100 years. These new looms failed to produce and are now standing idle in our plant.

The American manufacturer has just recently completely gone out of the textile machinery business. In cooperation with the trade adjustment assistance program, our company has found it necessary to replace these machines with foreign looms.

In fact, it is only because of the assistance of the trade assistance program that our company is still operating today.

I respectfully urge you to consider the plight of the woolen industry, both in New England and the country at large, and the approximately 19,000 men and women still employed producing woolen fabrics for both domestic use and the military.

In conclusion, it appears that our beleaguered industry needs help from three directions; namely, continuation of the trade adjustment assistance program, lower interest rates and, most importantly, a relief from very excessive low cost foreign imports.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF WINFIELD A. SCHUSTER, PRESIDENT, HAYWARD-SCHUSTER WOOLEN MILLS, INC.

My name is Winfield A. Schuster, President of Hayward-Schuster Woolen Mills, Inc., East Douglas, Massachusetts. Our company and its forebears have been in the woolen industry in Massachusetts for almost 125 years. We are manufacturers of apparel fabrics for the Menswear, Womenswear and Children's trade, as well as being an important source of supply for the Defense Department. Normally we employ some 500 people but currently, because of the very depressed conditions in the industry, are down to less than 300.

The company operates under a labor contract with Textile Workers Union of America, AFL-CIO. In 1936 this mill and the textile Workers Union consummated the first formal written contract ever employed in the woolen industry. This single manufacturing unit is now the sole survivor of four original mills located in Massachusetts. The other three units fell victim to foreign competition, changing customer demands, and other economic pressures.

In 1930 when I first entered the woolen industry, there were over 300 woolen mills in the United States. The now defunct Amercian Woolen Company, as late as 1954, operated 27 mills. The tremendous shrinkage and demise of the industry has now left it with only about a dozen apparel mills to supply the needs of the entire country and the military. Within the past three or four months two of the old and long-established woolen mills in New England have gone out of business and are now being liquidated. If this country were at war there is very, very serious doubt that our small remaining industry could successfully provide the needs for both the military and the civilian demand.

The impact of foreign wool fabrics on the American woolen business is nationwide and very serious. I limit myself, however, to those imports relating only to types of wool fabrics produced at our own mill. Two of the most important fabric areas in wool manufacturing are the Men's Sportcoat and Women's Sportswear types (10-13 oz. fabrics). This light-weight wool fabric area is being subjected to the heaviest attack by foreign competition. In this one very important wool fabric area (10-13 oz.), for the first ten months of 1981 all foreign imports increased by 197 percent and from Italy alone by 746 percent.[1]

The U.S. Department of Labor records show that employment in the U.S. broad woven mills dropped from 55,600 persons in 1960 to 18,600 persons in 1980, slightly more than 66 percent. During the same period, U.S. Department of Commerce reports that wool fabric production in this country decrease from 463 million square yards to 176 million square yards, a decrease of 62 percent. It must be noted that the recently renegotiated International Agreement on Textile trade provides for some improvement to the industry. However, to be effective, the terms of this bilateral agreement must be vigorously enforced through negotiations with individual exporting countries.

In 1977, in an attempt to modernize and become more competitive, our company purchased new high-speed American textile machinery from the same manufacturer who had provided us looms for over 100 years. These new looms failed to produce and are now standing idle in our plant. The American manufacturer has just recently completely gone out of the textile machinery business. In cooperation with the trade Adjustment Assistance program, our company has found it necessary to replace these machines with foreign looms.

I respectfully urge you to consider the plight of the woolen industry, both in New England and the country at large and the approximately 19,000 men and women still employed producing woolen fabrics for both domestic use and the military. In conclusion, it appears that our beleaguered industry needs help from three directions, namely, continuation of the Trade Adjustment Assistance program, lower interest rates and, most importantly, a relief from very excessive low-cost foreign imports.

---

[1] See Northern Textile, table 5—U.S. Department of Commerce.

TABLE V.—U.S. IMPORTS OF WOVEN WOOL FABRICS

Major sources of principal woven wool fabrics (weights per square yard)	January to October 1981		SYE percent change
	SYE (thousands)	Amount (thousands)	
Wool not over 6 oz. (10 oz. lin. yd.) 336.6047:			
Total	3,737	$13,591	+30
Japan	1,462	5,463	+4
Korea	774	2,256	+311
United Kingdom	556	2,297	+21
Italy	350	1,710	+189
Poland	203	496	−47
PRC	246	671	+94
Worsteds 6–8 oz. (10–13 oz. lin. yd.) 336.6049:			
Total	5,667	22,255	+33
Japan	2,106	9,509	+41
Korea	1,872	6,713	+87
Poland	703	2,187	−25
PRC	357	1,195	−6
Italy	186	919	+5
Uruguay	157	504	+76
Woolens 6–8 oz. (10–13 oz. lin. yd.) 336.6051:			
Total	3,106	11,145	+197
Italy	1,176	2,787	+746
United Kingdom	794	4,382	+86
PRC	714	2,278	+232
Korea	183	655	+93
Japan	127	589	+79
Wool 8–10 oz. (13–16.5 oz. lin. yd.) 336.6053:			
Total	1,719	8,172	+24
Italy	625	2,706	+72
United Kingdom	467	2,836	+47
Japan	293	1,181	−28
Korea	105	416	+110
Wool 10–12 oz. (16.5–20 oz. lin. yd.) 336.6055:			
Total	206	1,458	−18
Italy	63	565	+37
United Kingdom	57	390	+10
France	31	162	+107
Wool over 12 oz. (over 20 oz. lin. yd.) 336.5057:			
Total	269	2,178	+10
United Kingdom	113	934	+157
Italy	58	679	+2
Korea	39	144	+1,200
Hair like wool not over 10 oz.; 336.6041:			
Total	1,120	5,662	−30
Japan	404	2,081	+114
Italy	253	1,281	−2
United Kingdom	200	1,206	−79
Hair like wool over 10 oz.; 336.6043:			
Total	173	1,073	−13
Italy	139	814	+32

	Total employment [1]	Production—wool apparel fabric (square yards) [2]
1960	55,600	463,000,000
1961	51,800	460,000,000
1962	52,200	488,000,000
1963	49,600	450,000,000
1964	45,000	408,000,000
1965	45,500	421,000,000
1966	44,900	399,000,000
1967	43,500	362,000,000
1968	44,200	384,000,000
1969	44,000	378,000,000
1970	38,200	280,000,000
1971	29,800	182,000,000
1972	27,800	160,000,000
1973	28,300	166,000,000
1974	24,500	121,000,000
1975	20,600	116,000,000
1976	22,600	133,000,000
1977	22,800	139,600,000
1978	20,800	158,400,000
1979	21,100	157,503,000
1980	18,600	176,100,000

[1] Bureau of Labor Statistics, U.S. Department of Labor.
[2] Current industrial report, U.S. Department of Commerce.

Chairman **Gibbons**. First of all, I want to commend you for your durability. You have been in the business since 1936. That is a record in itself. I am sorry to hear that our loom producers have gone out of business. What put them out of business?

Mr. **Schuster**. They failed to be able to measure up and produce an effective so-called high-speed shuttleless loom. The European producers have done that, but in our industry, unfortunately, failed miserably. There is really no excuse for it, Mr. Chairman.

Chairman **Gibbons**. So you have to buy your looms from Europe, is that right?

Mr. **Schuster**. We have no alternative.

Chairman **Gibbons**. What country produces the looms now?

Mr. **Schuster**. Largely Germany, Switzerland, and Italy.

Chairman **Gibbons**. Well, you have made your recommendations very clear. You need trade adjustment assistance, lower interest rates, and you have some relief under the multifiber arrangement. I assume that you are worried about how vigorously it will be enforced?

Mr. **Schuster**. This is promising, sir, if it is vigorously enforced.

Chairman **Gibbons**. Thank you, sir, for your testimony. I appreciate your coming.

Mr. **Schuster**. Thank you very much.

Chairman **Gibbons**. Our next witness is from the Vermont Wood Industries, Inc., Mr. James H. Cossingham, president.

STATEMENT OF JAMES H. COSSINGHAM, PRESIDENT, VERMONT WOOD INDUSTRIES, INC.

Mr. **Cossingham**. Thank you, Mr. Chairman.

I have prepared a text for you and the committee members to look over. In the interest of time, I would simply like to highlight a few of the items that are in that testimony for you.

Chairman **Gibbons**. We will put your entire statement in the record. You may summarize any way you wish.

Mr. **Cossingham**. Thank you, sir.

My company, Vermont Wood Industries, manufactures wood component parts, specifically heels, wedges and clogs for the footwear industry What affects the American footwear industry also affects our company.

Quite frankly, Mr. Chairman, my colleagues and I in this industry are a little confused. We have heard lots of verbal support and a lot of rhetoric about the support for the small business, but we see action being proposed to eliminate the kind of assistance which allows our own business to survive, to continue existing jobs, and possibly create more jobs.

With unemployment figures rising, the question that we have is how can the economy improve if we don't help our own businesses? Since the administration has opened up the floodgates for foreign imports by lifting the quota restrictions for footwear, we are wondering what business the administration is supporting.

We have heard at least one representative of the administration indicate they have put a number of figures together without really knowing what those numbers mean.

I know Dave Stockman. He was my Congressman out in Michigan when I was out there a few years ago. I served on his Human Resources Committee. Dave had problems putting figures together then, and I think he still has some problems.

We are concerned about that. We are very glad to see that this committee is taking testimony from us, and hopefully you will be able to enlighten the administration and Mr. Stockman with the information you are hearing from us.

The automobile industry is the industry that we always hear a lot about as it relates to foreign imports because it is the big industry, a lot of people involved, and a lot of money involved. But if one looks proportionately at the job loss ratio in the companies lost, I suspect the American footwear industry, along with the textile industry and other industries, have lost far more than the automobile industry.

The last I knew, the big four were still surviving, but there are a number of companies that have gone out of business in these other areas.

Over the past 10 to 15 years we have seen the number of shoe companies in the United States shrink from over 2,000 active companies to approximately 650 existing companies. As for those of us who are in the wood heel business, we are down from about 24 suppliers to only 6 existing wood heel manufacturers left.

The number of jobs lost within this whole industry is significant. On the whole, the American footwear industry is still the best producer of quality shoes in the world. Unfortunately, our shoe industry cannot compete with the unfair competition—and I emphasize this next—and subsidized competition found overseas.

I have taken the liberty to attach a few articles which I believe support my contentions. If you have a chance to review those articles, I think you will find it enlightening as relates to the recent surge of imports coming into this country.

A few years ago, when quotas were placed on the number of foreign shoes, this committee and members of this committee who were sensitive to the entire situation passed legislation to provide financial assistance to those businesses that were adversely affected by imports.

I wish to thank you, Mr. Chairman, for the lead that you took in bringing this legislation about. For a time it appeared that the American shoe industry was on its way to recovery.

Many shoe companies were able to take advantage of trade adjustment assistance to upgrade antiquated equipment, improve energy inefficient buildings and explore alternative ways of conducting business in a more efficient and effective manner, but after many years of neglect the industry has not fully recovered. This is evident if one looks at the overall economic climate in this country and if one examines the attached articles from a leading footwear publication.

I think we have to keep in mind this industry has been a very labor intensive industry down through the years. Only recently have we seen the technology coming forth in mechanized ways to assist the American shoe industry in bringing about a competitive stance. We are looking at very cheap labor from overseas.

I am just a little small businessman, Mr. Chairman, but I believe the trade adjustment legislation was perhaps the most important legislation in support of small business in existence today.

As a small minority businessman, I worked with the SBA, the MBE, the SBIC, OSHA, and all of the alphabet things. They are good programs, but I don't believe any of them are as effective as this particular program.

We are not talking about funds for starting new businesses. We are talking about technical assistance and loans support to help keep some of our exiting industries, such as the textile and shoe industries, from becoming as extinct as some of our wildlife.

I would like to recommend that perhaps we take a look at these industries as a part of national defense. We might be able to get away without having some things that we manufacture and use in this country, but, Mr. Chairman, I think we all can agree that everyone needs shoes and clothes. We just can't go naked, at least we can't up in the cold climates of Vermont.

If we were to have another conventional war as we did in World War II, could these industries which are still in a state of decline serve both the military effort and the domestic population in this country? Do we want to depend on foreign markets to provide us with our shoes and clothes were that situation to occur?

I think not, and I believe the trade adjustment assistance program begins to address that potential situation by providing business support to American footwear manufacturers. This is not a giveaway program, it is a business loan program with interest rates tied to the prime rate that are still attractive to businesses in need.

I couldn't help but overhear the questions of my good friend Congressman Vander Jagt and yourself as it relates to whether or not the loan program was entirely important and necessary.

Even with all of the problems that have probably surfaced with the loan program, which I know are being worked on, I personally, as a very small businessman, feel that the loan program is very important and that if it were eliminated, it would be devastating to a number of the industries that are reaching out to this very last dollar support to stay alive and stay in business.

There were two portions of the legislation, one having to do with trade assistance to individual workers and assistance to businesses that were struggling to survive. Frankly, I was quite pleased when I saw the general direction of the program was changed to put more appropriations into assisting businesses.

Without the basic assistance the individual workers would never have a chance to regain their jobs. Without this assistance, many of our footwear manufacturers and those of us that supply that industry would be out of business.

It is a sad state of affairs to report that American shoe manufacturers and retailers who never before carried imports in their line are being forced to do so today in order to survive. They fought it, they resisted it, but they just can't deal with it anymore.

Something has to be said about the merits of this program for the small businessperson. Chrysler, Lockheed, Exxon, the big boys all have their own powerful lobbies and access to Washington, D.C. They can come in for the loans, the subsidies, and assistance. That is fine.

Chrysler may be fine for Detroit, but, Mr. Chairman, Vermont Wood Industries is the Chrysler of Wilder, Vt., a little town you can't even find on the map. We don't have the influence and the money to come in to Washington a lot, and we know there are thousands of small businesses just like us across this country.

This is where the trade adjustment program has been so helpful to us because these people have come out to our businesses, they have come in and rolled up their sleeves, got their elbows into it with us, and they have helped us with local services and good services.

For the small amount of money invested in this program, I think it is well worth the investment.

I would also like to put a plug in at this time for the New England Trade Adjustment Center because I think the people there have been super. If that is an indication of what is going on around the rest of the country, then I think we have a very fine program.

I had to say that or they would never accept my collect calls anymore.

In summary, Mr. Chairman, we are not looking for a handout, we are looking for a helping hand up the ladder to success. We are looking to you, the members of this committee, and representatives of Congress, to help the Administration make some sense out of all those numbers they seem to be having some difficult with. The numbers they have come up with for this program do not make sense.

I thank you and the members on the committee for allowing me the opportunity to speak on behalf of the trade adjustment program today. Thank you.

[The prepared statement follows:]

STATEMENT OF JAMES H. COSSINGHAM, PRESIDENT, VERMONT WOOD INDUSTRIES, WILDER, VT.

Mr. Chairman and members of the committee; I thank you for the opportunity to address this committee on a matter of great importance for businesses which have been adversely affected by imports. I specifically thank you and members of the committee and the House of Representatives who have supported legislation and appropriations for small businesses who have been served by the trade adjustment centers throughout the country.

My company, Vermont Wood Industries, manufactures wood component parts, specifically heels, wedges and clogs for the footwear industry. What affects the American footwear industry also affects our company.

Quite frankly Mr. Chairman, my colleagues and I in this industry are a little confused. We have been told the present administration is supportive of businesses. We have heard all kinds of rhetoric about their support of the small business community. Since the administration has opened up the flood gates for foreign imports by lifting the quota restrictions for footwear, we are wondering what businesses the administration is supporting. We hear verbal support for the small business community, but we see action being proposed to eliminate the kind of assistance which allows our own businesses to survive, to continue existing jobs and possibly create more jobs. With unemployment figures rising, how can the economy improve if we don't help our own businesses?

We have heard at least one representative of the administration indicate they have put a number of figures together without really knowing what those numbers means. We can only conclude that perhaps the administration simply hasn't grasped the impact of this situation closely enough. Perhaps the administration is preoccupied with their concern over huge deficits, high interest rates, balancing the budget, tax reforms and defense spending. I am impressed that this committee is doing its homework and can perhaps enlighten this administration to a few solid facts.

The loss of jobs in the automobile industry has attracted a great deal of attention simply because of the dollars involved and the number of people affected. But if one looks proportionately at the job loss ratio and companies lost, I suspect the American footwear industry has lost far more than the auto industry. Over the past 10 to 15 years, we have seen the number of shoe companies in the United States shrink from over 2,000 active companies to approximately 650 existing companies. The number of jobs lost within this industry is significant over that same time period. On the whole, the American footwear industry is still the best producer of shoes in the world. Unfortunately, our shoe industry cannot compete with the unfair competition and subsidized competition found overseas in foreign shoe producing countries. I have taken the liberty to attach a few articles which support my contentions.

A few years ago, quotas were placed on the number of foreign shoes that could be imported into the United States. At the same time, members of this committee and Congress, who were sensitive to the entire situation, passed legislation to provide financial assistance to those businesses adversely impacted upon by imports. For a time, it appeared that American shoe companies were on their way to recovery. Many shoe companies were able to take advantage of trade adjustment assistance to upgrade antiquated equipment, improve energy inefficient buildings, and explore alternative ways of conducting business in a more efficient and effective manner. But after many years of neglect the industry has not fully recovered. This is evident if one looks at the overall economic climate in this country and if one examines the attached articles from a lending footwear publication.

I feel the trade adjustment legislation is perhaps the most important legislation in support of small businesses in existence today. We are not talking about funds to start new businesses; we are talking about technical assistance and dollar support to help keep some of our existing industries such as the textile and shoe industry from becoming as extinct as some of our wildlife. I'd like members of this committee to look at the American shoe industry and the textile industry and others as part of national defense. I think we can all agree that everyone needs shoes and clothes. But if we were to have another conventional war as we did in World War II, could these industries, which are still in a state of decline, serve both the military effort and the domestic population in this country? Do we want to depend on foreign markets to provide us with our shoes and clothes were that situation to occur? I think not. And I believe the trade adjustment assistance program begins to address that potential situation by providing business support to American footwear manufacturers. This is not a give-away program, it is a business loan program with interest rates tied to the prime rate that are still attractive to businesses in need.

There were two portions of the legislation, one having to do with trade assistance to individual workers and assistance to businesses that were struggling to survive. Frankly, I was quite pleased when the general direction of the program was changed to put all of those appropriations into assisting the businesses, rather than the individuals. Without the business assistance, those same individual workers will never have a chance to regain their jobs. Without this assistance, many of our footwear manufacturers and those of us that supply that industry would be out of business. Already, American shoe manufacturers and retailers who never before carried imports in their line are being forced to do so in order to survive.

Mr. Chairman, something should be said about the merits of this program for the small businessperson. Chrysler, Lockheed, Exxon, and the big boys have their own powerful lobbies and have access to Washington, D.C. They can come in for their big loans, subsidies, and assistance. That's fine and Chrysler may be fine for Detroit. But Vermont Wood Industries, employing 40-50 people is the "Chrysler" of Wilder, Vermont, a little town you can't find on most maps. We don't have the influence and money to come in here a lot and there are thousands of small businesses just like us across this country. The trade adjustment program comes to us. I can't speak for others, but the folks at the New England Trade Adjustment Center have been super. They provide us forgotten people with local services and good services. For the small amount of money invested in this program, it's well worth the investment to help our small industries. We're not looking for a hand out, just a helping hand up the ladder to success.

In summary, Mr. Chairman, we are looking to you, the members of this committee, and Representatives of Congress to help the administration make some sense out of all those numbers they seem to be having some difficulty with. The numbers they've come up with for this program do not make sense. I thank you and members of the committee for allowing me the opportunity to speak on behalf of the trade adjustments program today. Thank you.

[From the Footwear News, Dec. 21, 1981]

INDUSTRY, ON DEFENSIVE, LIMITS MERGERS, GROWTH

NEW YORK.—The shoe industry this year assumed a defensive posture, limiting mergers, acquisitions and expansion, with few exceptions, sources told FN.

"Corporations are being more selective," acknowledged Bud Pfister, vice-president of marketing, Musebeck Shoe Co., Oconomowoc, Wis., who added companies dealing in "quality" shoes, rather than in volume footwear, seem to fare best at times when many shoe companies are not looking to purchase related concerns.

As capital remained tight and investments provided limited paybacks in 1981, most manufacturers planned to stick to their specialized markets and avoid straying into uncharted territories.

"Very few people are going to buy into the shoe business," said one manufacturer. "People are trying to get out with their skin on."

At a time when many companies are streamlining their operations, one of the first domestic businesses to dwindle has appeared to be shoe manufacturing. "More and more people are getting out of it," observed Tom Mitchell, assistant to the president of Allen Edmonds, Belgium, Wis., a men's shoe manufacturer.

Some shoe manufacturers reported they are not putting big money into their businesses because they can find better investments in utility stocks and money markets. Sources said, to increase production, manufacturers need flexibility and a low-wage work force—commodities, they observed, that are becoming harder to find.

"The shoe business is a business that the rich man doesn't want," noted one source.

According to one investment counselor, only larger companies have the mobility and financing to scout for acquisitions at this time; for example, Wolverine World Wide, Inc., recently took over Brooks Shoe Manufacturing Co., Hanover, Pa.

His view was shared by one shoe manufacturer who said, "There is enough to concern ourselves with at the moment besides acquisitions."

Although the industry mood in 1981 was one of contraction rather then expansion, where growth was indicated, it generally centered more on retailing than on manufacturing operations.

INCLUDES SOME IMPORTS

Craddock-Terry Shoe Corp., Lynchburg, Va., for example, reported it would be interested in acquiring a small chain of shoe stores to speed its retail growth, if interest rates continue to drop, but for now, it is holding steady on its manufacturing operations, according to G. Bruce Miller, president.

"We plan to continue operating our nine factories and we are aggressively trying to sell more shoes to keep those factories going," he said, expressing deep concern about the growth of imports, with the recent elimination of the Orderly Marketing Agreements with Taiwan and South Korea.

Two years age, Craddock-Terry did not import shoes. Now its lines contain some imports, and there are even more imports to be found in the company's retail stores.

"We will be assessing that question (consolidation) in the next six months," Miller said. "If imports are not checked and we have to bring in shoes to compete, we will."

"Everybody cries that imports are killing us," said Allen Edmonds' Mitchell, "but with this swing towards manufacturing elsewhere, we'll never stop it, and that's unfortunate."

A prime example of the footwear industry's increasing emphasis on retailing activities can be found at Scoa Industries, Inc., Columbus, O., a retailer that has eliminated its shoe manufacturing operation.

Herbert H. Schiff, chairman and president of Scoa, told shareholders at the company's annual meeting earlier this year that Scoa could grow through acquisition, "but we will not make an aquisition for acquisition's sake. We will keep our high standards."

Scoa has a cash-heavy position of about $100 million and is identifying takeover candidates in the retail industry, bearing out the point that it is primarily the larger, cash-heavy concerns that can afford to be in today's acquisition market.

[From the Footwear News, Dec. 14, 1981]

SHOE IMPORTS CONTINUE GAIN DURING OCTOBER

(By Richard Wightman)

WASHINGTON.—Nonrubber footwear imports continued to gain in October, following the demise of the nation's Orderly Marketing Agreements (OMAs) and due, in part, to a sudden switch by foreign suppliers from rubber shoe production.

The October import tally, reported last week by the Commerce Department, was 30.8 million pairs, 29 per cent higher than the 23.9 million pairs shipped in the same month last year.

The massive increase, by far the largest since the OMAs expired in June, helped put 1981 imports ahead of 1980 levels for the first time, and shipments this year appear headed for record levels.

Cumulatively, January-October volume totaled 312.4 million pairs, 2.1 per cent above the same 1980 period.

This year's build-up began in August, a month after the OMAs with Taiwan and South Korea were allowed to expire, and the surge so far is following closely along the lines predicted by the domestic industry during its efforts to retain the quota controls, a representative of Footwear Industries of America (FIA) said.

The import trend may also be developing another facet was forecast by the then-American Footwear Industries Association in its fruitless bid for continued import protection: A clear switch from rubber to nonrubber content, in terms of tariff classification.

While nonrubber footwear imports have been soaring since August, rubber shoe shipments suddenly have started to decline and the explanation, as the domestic industry sees it, is a simple one: The abolition of the American Selling Price (ASP) rates of duty on rubber shoes.

When ASP expired—on the same June 30 date the OMAs were eliminated—it was replaced with a straight ad valorem tariff, averaging around 40 per cent and going as high as 65 per cent. This is in sharp contrast to the 9 per cent average on imported nonrubber footwear and the result, now showing up in the import statistics, is a changeover to products with the lower tariff, FIA contends.

"The exporters said they couldn't do it; that their equipment wasn't suitable to make the change, but what we're seeing now is a sharp increase in nonrubber footwear to take advantage of the duty rates," stressed Fawn Evenson, vice-president for national affairs, FIA.

Until August, nonrubber footwear imports were declining, while rubber footwear imports continued to rise. But in August, nonrubber imports suddenly jumped 24 per cent, compared with August 1980, to 36.6 million pairs; in September, 23 per cent, to 31.9 million pairs; and in October, 29 per cent, to 30.8 million pairs.

Rubber shoe imports continued to decline in August, but a reverse trend set in during the following month. In September, they suddenly fell 27 per cent, to 7.2 million pairs, compared with September 1980, and in October they fell 8 per cent, to 7.1 million pairs.

Meanwhile, Evenson predicts nonrubber footwear imports will continue to surge in the coming months, due to the elimination of ASP and the death of the OMAs.

"There was some anticipation there would be an import 'bubble' when the OMAs expired, but the October figures show it's a 'bubble' no longer and the trend will continue," she declared.

Peter Mangione, executive vice-president of Volume Footwear Retailers of America (VFRA), which supported termination of the OMAs, could not be reached for comment. However, last month Mangione told FN he believes the recent monthly increases in imports was not "a surge at all," but rather a "reflection of the disruptions caused by the ending of the OMAs."

In Taiwan, Mangione said, vast numbers of shoes simply "sat on the docks" in June awaiting the end of the OMAs. In August, these shipments began to move again, resulting in Taiwan's monthly increases in August and September.

At the time, Mangione noted Taiwan shoe imports for 1981 were still substantially lower than for the comparable period last year, which is still the case. Meanwhile, a country-by-country breakdown of October imports showed most of the nation's major suppliers made bigger dents in the U.S. market.

Following are 1981 import statistics (in millions of pairs) for October and January-October, respectively: Taiwan, 11.5, 96.9; Korea, 4.3, 35.1; Brazil 3.2, 36.9; Italy, 2.9, 40.9; China, 0.4, 5.9; Philippines, 1.2, 11.9; Hong Kong, 2.1, 24.2.

Following is a similar breakdown for 1980: Taiwan, 10.1, 118.7; Korea, 2.5, 30.5; Brazil, 2, 26; Italy, 1.5, 40.6; China, 0.2, 1.6; Philippines, 1, 12; Hong Kong, 1.7, 177.7.

TEN QUEBEC MAKERS PLAN SPECIAL NSF EXHIBIT

(By Dick Silverman)

MONTREAL.—A group of 10 leading Quebec footwear manufacturers are planning a special two-day exhibition in New York during the National Shoe Fair to attract the attention of the U.S. retail buyers and sales representatives.

Approximately 300-500 invitations will be sent to department store, chain and specialty store buyers throughout the country and members of the National Shoe Travelers Association to attend the showing at the Quebec Government House in Rockefeller Center, Feb. 15-16.

The combination exhibition-mission is a joint project of the manufacturers, the Footwear & Leather Institute of Canada and the External Trade Office of the Quebec Department of Trade & Commerce, according to Lise Fortin, marketing analyst for the Footwear & Leather Institute, and Germaine Ellis, New York commercial officer for the Quebec Government.

The organizations decided about a month ago to sponsor the trip so Quebec manufacturers who have available production, but little experience in selling to American sources, could gain exposure and experience, Fortin said. The companies particpating produce both men's and women's footwear, with prices ranging from low-end to high-grade, she said. The merchandise exhibited will be fall and winter 1982 footwear, with an accent on cold-weather boots, she added.

PLANS FASHION TOUR

Set to participate in the special showing are J. A. Blaise, Inc., St. Cesaire, Quebec; Faber Shoes, Inc., Quebec; Chauveau Footwear, Inc., Loretteville, Quebec; A. Cloutier, Inc., Quebec City, Quebec; Gaby Footwear, Ltd., Montreal, Quebec; Grenico, Inc., Quebec City, Quebec; Regence Shoe, Inc., Loretteville; and L. P. Royer, Inc., Frontenac, Quebec. Two more companies will be added to the list, Fortin noted.

An additional four or five Quebec companies that have experience with U.S. sales also will exhibit at the New York Coliseum, she reported.

Germaine Ellis, commercial officer, said the Quebec shoe manufacturers will visit NSF, and department stores, specialty stores and boutiques in New York to get a sample of American fashion and merchandising tastes.

Presidents or marketing managers from each participating company will attend the exhibit and will be available to business at the show, Fortin said.

A special cocktail party, introducing the Quebec manufacturers to buyers and sales reps will be held at the Quebec House. Sales representatives in the U.S. who might be interested in carrying the Quebec lines are being asked to meet with the manufacturers, Ellis noted.

The two-day exhibit will be at 17 West 50th Street in Rockefeller Center. For information, contact Germaine Ellis or Lisa Nasio at the Quebec Government House.

IMPORT GAIN WIPES OUT NEARLY ALL 1981 CUTBACKS

(By Richard Wightman)

WASHINGTON.—Imports of nonrubber footwear continued to gain in September, rising almost 24 percent above the same month last year to 32 million pairs, the Commerce Department reported last week.

The increase, which started when the nation's Orderly Marketing Agreements (OMAs) were eliminated at the end of June, brought imports to nearly the same level as in 1980. The cumulative total to the end of September was 281,603,000 pairs, only marginally below the 281,963,000 pairs imported in the first nine months of 1980.

Peter Mangione, executive vice-president of Volume Footwear Retailers of America (VFRA), commenting on the figures declared, "There isn't a surge here at all," and added the figures were a "reflection of the disruption caused by the ending of the OMAs."

* * * at a time when the budget slashing Reagan Administration apparently has decided to downgrade its shoe import monitoring program.

Bernard Ascher, director of Commerce's sectoral trade monitoring and an expert on footwear import issues, has been reassigned and his job has been abolished, according to agency officials.

Partly because the OMAs program has been axed, and partly because "other priorities" have taken the place of footwear, footwear import fact-finding will no longer be given precedence, the officials said. Auto imports now are considered a more important issue for Government surveillance, they added.

Officials who head the Commerce division that employed Ascher could not be reached for * * * monitoring curtailment would be. However, the officials said a key ingredient—a country-by-country breakdown of monthly imports—would be continued for at least 12 months.

Meanwhile, September's country-by-country data showed substantial import increases from Taiwan and South Korea, the two suppliers formerly restrained by OMAs. September imports from Taiwan totaled 12,657,000 pairs, up from 11,057,000 pairs in September 1980. Korea's imports showed an equally large increase when the two months are compared, from 2,998,000 pairs, to 4,499,000 pairs.

VFRA's Mangione explained the figures, however, as an outgrowth of the severe constriction of quota that occurred in Taiwan when the OMAs program neared its end in June.

According to Mangione, vast numbers of shoes simply "sat on the docks," awaiting the end of the OMAs. In August, these shipments began to move again, he said, with the result that Tawian's August shipments rose 34.2 per cent. Taiwan's September increase of about 14 per cent was substantially less than * * * said, "the clog in the pipeline has passed through" and a "return to normal trading."

Korea's total for the first nine months of 1981 amounted to 30,756,000 pairs, up almost 10 per cent from January-September 1980. Taiwan's supplies totaled 85,388,000 pairs, still 21 per cent lower than the same 1980 period.

There were substantial increases from a number of other major suppliers.

BRAZIL IMPORTS GAIN

Hong Kong in September shipped 1,540,000 pairs, almost double the 875,000 pairs delivered in September 1980. Imports from Hong Kong over the first nine months of this year were 22,085,000 pairs, 44 per cent higher than a year earlier.

Thailand was another country showing sizable increases, from only 51,000 pairs in September 1980, to 192,000 pairs this September. Imports from this Far Eastern country climbed 102 per cent, to 4,941,000 pairs in January-September 1981, compared with the same 1980 period.

China also continued a strong showing in the U.S. market, with September shipments jumping to * * * pairs in the same month last year. Imports in the first nine months of 1981 were 278 per cent higher, at 5,468,000 pairs, than in January-September 1980.

Imports from Brazil, now one of this nation's largest foreign suppliers, also showed substantial increases. Imports in the first nine months of 1981 amounted to

31,698,000 pairs, up 40 per cent from 1980. For September alone, they totaled 4,391,000 pairs, against only 2,721,000 pairs in September 1980.

Italy, traditionally one of this country's largest suppliers, was one of the few that registered long-term declines. In September, its shipments totaled 2,703,000 pairs, up substantially from last September's 2,082,000 pairs; but imports in the first nine months of the year were 38,052,000 pairs, down 3 per cent from January-September 1980.

Chairman GIBBONS. Thank you, Mr. Cossingham.

Have you participated directly in the trade adjustment assistance program?

Mr. COSSINGHAM. We have, Mr. Chairman. We have been provided technical assistance by this program. We are presently pursuing a loan through the New England trade adjustment program. If we are successful—and I have every reason to believe we will be—we will be positioned very uniquely and will be able to compete very attractively in our market.

Chairman GIBBONS. You mentioned that some manufacturers were shipping imported shoes into this country on a subsidized basis. Can you tell me what countries those are?

Mr. COSSINGHAM. Yes. We have some programs in clogs, for example, that are imported from the Scandinavian countries, I believe Denmark, Sweden, and some of the other countries there. They subsidize their industries. They are bringing those clogs into the United States and selling them here in the marketplace and taking advantage of the subsidies from their own countries. Those of us who have to go up against that find it very tough sledding.

Chairman GIBBONS. Do you know how they subsidize their industries, those countries?

Mr. COSSINGHAM. I don't really know all of the particulars. I do know they have very attractive incentives for those industries that are in those countries.

Chairman GIBBONS. If we run into a country subsidizing its exports, we should take actions against it. I would hope that the shoe industry as an industry or perhaps companies individually will call those cases to our attention when we run into them.

I don't think we should duck our head on fair competition, but on subsidized competition, that is illegal under our laws. We want to put an end to that. We will try to assist you in putting an end to it.

Mr. COSSINGHAM. We will be happy to provide you with some names, Mr. Chairman.

Chairman GIBBONS. Any names or evidence you might have, we would like to have that.

Mr. COSSINGHAM. Yes, sir.

Chairman GIBBONS. Thank you, sir.

Mr. COSSINGHAM. Thank you.

Chairman GIBBONS. Bristol Co., Mr. Freeborn?

Mr. Freeborn, we appreciate your waiting so long. I know you have been there a long time. I have watched you out there. You may proceed as you wish.

STATEMENT OF WILLIAM H. FREEBORN, EXECUTIVE VICE PRESIDENT, BRISTOL BRASS CO., DIVISION OF BRISTOL INDUSTRIES CORP.

Mr. FREEBORN. Thank you, sir. My appreciation to the committee and to you, Mr. Chairman, for allowing me to speak on behalf of Bristol Brass and its employees.

Chairman GIBBONS. We don't allow you to speak. That is your right. You have an absolute right to come here.

Mr. FREEBORN. I stand corrected. I appreciate it.

I would like, if I may—probably some of the things that I will touch on have already been touched on to some degree or to a great degree. I would like, if I may, to read the report that I submitted to the attention of Mr. John Salmon.

I respectfully call to your attention the recent action or direction proposed by the Office of Management and Budget of the Federal Government, the recommendation of zero funds to the trade adjustment program budget.

As a long-time employee in the metals industry, both steel and brass, I have watched the decline of these industries to a point where I now have concern for the future and the safety of our Nation. I have watched imports wreak havoc within our industries, I might add with those very same mills that we built for them after World War II.

It has been said that with the victor goes the spoils. What spoils have we realized? When we attempt to export our products, we are hit with rules and tariffs that prevent us from exporting. Yet, we provide an open door policy with little if any protection for us.

They export their unemployment at our expense, the expense of our industry and our labor. To further compound this, they are subsidized by their governments for exporting their products.

Debates—and I might add heated debates—are going on within our country for our import-beseiged American industries—steel, autos, shoes, and others—and probably more as time goes on and unemployment moves to higher levels.

The real issue, I believe, is that of fair trade versus unfair trade and not that of free trade versus protectionism.

We are now faced with dumping suits against foreign steel producers, probably a long and rather expensive ordeal for all involved, and with no way of knowing the results, if any at all.

Will this be the harbinger of much more such legal action by other industries that have been impacted? I think so, and why not? If it is good for steel, is it not equally good for autos, shoes, textiles, and others?

The direction I am leading to promotes the following questions:

Should our Government allow foreign companies to dump products in this country for the sake of promoting better international relations?

Should U.S. companies be expected to compete with foreign companies subsidized by their governments?

Is it fair for the U.S. Government to impose export restrictions and regulations on U.S. companies when foreign governments go all out to help their companies in world competition?

Should defense vital U.S. industries vulnerable to imports be allowed to go under because they are not growing fast enough?

Are jobs or no jobs for American workers of no importance in trade policy considerations?

Is it cheaper to provide welfare and unemployment checks to the unemployed or provide employment and gain tax revenue for the cities, States, and our Federal Government?

There is a longstanding Government concern over retaliatory measures and trade wars if certain industries are given protection. Would they retaliate against their prime marketplace? I think not. America has always enjoyed the competitive spirit, but we now seem to be losing this. This must be rekindled, but not with tariffs, with assistance.

We must embark on a concentrated effort to improve our facilities and our production. Greater production per man-hour must be the rule of thumb. Labor must join with management in a concentrated effort to improve production and protect jobs for all people, not a select few.

Our Government must take an active role in helping industry to obtain these goals. The allowed continuation and a proper budget for trade adjustment, for use in economic development should be a priority.

In fact, it is this type of support that our Government should provide the industrial sector, not a giveaway or a subsidizing, but the ability to obtain Government-backed loans at a reasonable rate.

Given a reasonable timeframe and with a stong concerted effort, we can become competitive in the world marketplaces. It is just this type of support that trade adjustment offers, the kind of support that provides the avenue or direction to improve a company's productivity an opportunity to succeed.

Personally, and I will submit to you that I believe in trade adjustment and the people who make up this team. They are thorough, and I might add they are dedicated to the overall improvement of all industry. They are concerned, as we are, about unemployment and about the loss of industry.

Why should the greatest industrial Nation in the world have to take a back seat to other nations? We should not, but without some avenue to provide investment in equipment and modernization, we will slowly but surely turn from a diversified industrial Nation to one of service. We will be faced with having to import steel, brass, shoes, textiles and conceivably protection in the form of guns and ammunition with which to defend ourselves.

In my opinion if we allow this to happen, we will become a totally weak Nation. An improved defense spending program as far as employment is concerned is only a drop in the bucket. It is the employment created by all industry and, in particular, basic industry that is the employment backbone of our Nation.

I would like to discuss with you, if I may, the situation at Bristol Brass and the impact that trade adjustment assistance will provide.

Bristol Brass is a 132-year-old basic brass producer employing peak 351 people. Many of these people are second and third generation employees. We became an unbankable situation and were faced with having to pay exorbitant interest rates at 5½ over prime, a slow but sure death for any company.

As a result of this, we contacted economic development and in turn the trade adjustment group. Our initial application for qualification was turned down. As a result, we were required to really prove the need, actually to prove that we were really impacted, import impacted, which we did.

Through the assistance of the people at trade adjustment, they brought to our attention a lot of things that we overlooked. They were oversights, things we neglected really to dig into and study properly as we should have.

The technical assistance offered by trade adjustment is also of prime importance to us. Technical assistance to improve our operations, enter new markets, develop costing and cost controls, and to greatly improve and enhance our overall operations is also included in our plan.

In essence, what we have done is recognized our weak spots. We have taken a look at our management. We have taken a look at our supervision. We have made a lot of changes. A lot of these changes were recommended and suggested by the people at trade adjustment.

As a result of our certification, we have developed a new, lower cost financing arrangement, put together a stronger marketing plan and a better operating plan. The people at Trade Adjustment have made this possible.

It is reasonable to say trade adjustment is responsible for Bristol's remaining in business and providing employment to the community. It is this type of support and assistance that should be continued. It is, in my opinion, a proper investment of tax dollars that will provide an excellent return. It is the Government's expression of continued confidence in the continuation of our industries.

I thank you for your time and for your attention and most certainly for your concern for our problems.

I would like, if I may, to touch on a couple of points that I heard stated here today.

At one point I believe Mr. Chairman you mentioned something about the possibility that it is poorly administered both by Democrats and Republicans. If this be the case—and it could well be—and since you at one time supported this program—and I believe you said you jammed it down their throats—why not continue trade adjustment? Have them put their house in order. Have them provide the funds and allow what is basically a sound program to continue to grow and to work for the good of our total business and industry sector.

I believe the gentleman from the AFL-CIO put it politely when he said people want to work. I can tell you this: The people at Bristol Brass want to work, and they do work.

As stated in my remarks to the committee, labor must join with management in a concentrated effort to improve our production. The people of Bristol Brass have done just this. They have accepted the challenge and they are either improving or taking steps to improve our production in our total company.

The steel industry has trigger pricing supposedly to try to protect the steel industry from dumping. Yet the steel industry is now suing for dumping. The brass industry has no trigger pricing to help prevent dumping. We can only turn to the only avenue we know and believe in, and that is trade adjustment.

If you have a program that apparently is paying its way, why not improve it? The comments of Dan Fennell and the comments he makes about our President's desire certainly echoes the sentiments of industry.

Mr. Chairman, we need trade adjustment. It is the best plan to date to lead us on the road to economic recovery. We cannot boast the same degree of success as KMMCO and others who have testified here today because we are in chapter 11 right now, but with the total trade adjustment program and our ability to pull ourselves out of chapter 11, once we do, the fact that we will hopefully once again qualify for trade adjustment, I think you will see Bristol Brass around for at least another 132 years.

In closing, I would like to submit for the committee's record a series of letters. Senator Lowell Weicker, and in quoting Senator Weicker's last paragraph:

> Trade assistance funds are not handouts, Mr. Chairman, but one of the best means of substantially improving the productivity of American business. Therefore, I urge the members of the House Ways and Means Committee to give utmost consideration to Mr. Freeborn's testimony on behalf of Bristol Brass Company.

The same sentiments are echoed by Mayor Werner, the mayor of Bristol, Conn., by Congressman Toby Moffett.

In the mail I understand being Federal Expressed to the committee today is a letter from Governor O'Neill and from the United Auto Workers, our union in our plant, District 9, New England.

Mr. Chairman, I thank you for your time.

[The letters follow:]

LOWELL P. WEICKER, JR.
CONNECTICUT
Phone: [illegible]

COMMITTEES:
SMALL BUSINESS (CHAIRMAN)
APPROPRIATIONS
ENERGY
LABOR AND HUMAN
RESOURCES

United States Senate
WASHINGTON, D.C. 20510

STATE OFFICES:
BRIDGEPORT
U.S. Federal Building
915 Lafayette Boulevard 06604
Phone: [illegible]
Toll Free [illegible]
HARTFORD
U.S. Federal Building
450 Main Street 06103
Phone: [illegible]
Toll Free [illegible]

February 26, 1982

Dear Chairman Gibbons:

I am writing you today in regards to the Trade Adjustment Assistance program and its effect on the Bristol Brass company of Bristol, Connecticut.

As part of the Administration's fiscal year 1983 budget request, the Trade Adjustment Assistance program is to be eliminated by the end of 1982. For Bristol Brass the loss of these funds, which are given to companies like Bristol Brass that must bear the brunt of foreign competition in the brass industry, would be fatal.

Those who would support elimination of these funds by 1982 would perhaps argue that it is vitally important to reduce the deficit by cutting programs like the Trade Adjustment Assistance program. In the long run, however, is it really a "savings" to drive firms like Bristol Brass out of business, and drive their employees onto the unemployment rolls? Can this nation afford more joblessness?

Clearly,we cannot. Trade Adjustment Assistance funds are not handouts, Mr. Chairman, but one the best means of subtantially improving the productivity of American businesses. Therefore, I urge the members of the House Ways and Means Committee to give utmost consideration to Mr. Freeborn's testimony on behalf of the Bristol Brass company.

Sincerely,

Lowell P. Weicker, Jr.
United States Senator

MICHAEL L. WERNER

City of Bristol
BRISTOL, CONNECTICUT 06010
Office of the Mayor

February 24, 1982

Mr. John J. Salmon, Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Room 1102
Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Salmon:

I am writing to [illegible] respectfully request your support of the Trade Adjustment Program. Trade Adjustment is the last hope for Bristol's oldest industry: Bristol Brass. The loss of Bristol Brass would render a severe blow to the Bristol economy. Not only would we lose one of our city's top five taxpayers, but also hundreds of people would be added to our already burgeoning unemployment roles.

The long-term effects of this loss to the State, and to our nation itself, could be even more dramatic than the effects on the City of Bristol. Industries throughout the United States have for years been fighting the ever-increasing competition of foreign markets. This competition has been made even more keen by the outright subsidies that many foreign governments give as incentives to their industries to produce exports. By making our nation more and more dependent upon imports, we are slowly losing second and third generation skilled tradesmen from a very defense-sensitive industry. By assimilating these tradesmen into other segments of the economy, we will lose forever their skills which in most cases have been passed on from generation to generation. As an American, I do not feel that it is in the best interest of our country to be dependent on imports in such a vital area of the economy.

Bristol Brass is not looking for a handout. While we all are familiar with other segments of our economy which are given price supports and other subsidies in order to remain profitable, that is not what our Brass industry wants. Trade Adjustment will give our brass industry the loans they need to modernize their plants and to buy new equipment. This will give them a fighting chance against the heavily subsidized foreign companies. We have the most skilled, most productive Tradesmen in the world: they want to work. They want to keep our nation's economy strong and competitive. Please don't let them fall victim to the unfair competition of the highly subsidized foreign companies.

Very truly yours,

Michael L. Werner

Michael L. Werner
MAYOR

MLW/tb

TOBY MOFFETT
6th District, Connecticut

Washington Office:
127 Cannon House Office Building
Washington, D.C. 20515
Telephone: (202) 225-4476

COMMITTEE ON INTERSTATE
AND FOREIGN COMMERCE

COMMITTEE ON
GOVERNMENT OPERATIONS

Congreſs of the United States
House of Representatives
Washington, D.C. 20515

District Offices:
180 Farmington Avenue
Bristol, Connecticut 06010
Telephone: (203) 589-5750

175 Elm Street
Enfield, Connecticut 06082
Telephone: (203) 745-8577

144 West Main Street
New Britain, Connecticut 06052
Telephone: (203) 224-7186
(Toll-Free-1-800-382-4521)

February 26, 1982

Dear Chairman Gibbons:

I apologize for not being present today at these TAA hearings. I would like to take this opportunity to introduce Mr. Bill Freeborn, Executive Vice President of The Bristol Brass Company, Division of Bristol Industries Corporation of Bristol, Connecticut.

On April 3, 1982, The Bristol Brass Industries will be 132 years young. In 1850 a group of sixteen enterprising Yankee industrialists came together to form Bristol Brass and Clock Company. Bristol Brass and Clock Company has been true to its historic logo: "Shipshape and Bristol Fashion" through the past 132 years. The company, like the ships from the British port of Bristol has weathered incredible odds to be represented here today.

In 1976, the renamed Bristol Brass Corporation formed three subsidiaries: Mill Products, Accurate Forging and Product Identification. The Bristol Industries Corporation of 1982 is the old Mill Products Corporation of 1976. The main product line includes metal sheets, rod, wire and coils of various metals. These products we encounter daily in various forms: hardware; architectural products; gas, water and sewage products; portable appliances; aircraft; motors; generators; and electronics; instruments and forging -- the list is endless. In order for Bristol Industries to grow competitively and keep pace with such a diverse market, it has to constantly improve production and facilities. The United States metal market has diminished as competition from foreign shores continues to invade the market and undersell the domestic producers. Bristol Brass Corporation applied for the Trade Adjustment Assistance through the Economic Development Agency of the U.S. Commerce Department.

The Bristol Industries Corporation has enjoyed a long history of community involvement and has been a cornerstone in the industrial development of Bristol, Connecticut. The City has a fascinating history complimenting that of Bristol Industries. Beginning in 1919, the old Bristol Brass Company purchased property and began building rows of homes bordering the company. These homes, known as the "Brass Tract" were built by the company and sold to the mill hands to encourage homesteading in Bristol. In 1978, the "Brass Tract" was targeted in a historic survey for rehabilitation with federal monies -- the "Brass Tract" continues to link past to present in Bristol in an unusual symbiotic relationship. The employees of Bristol Industries at peak employment number of 300 and span three generations of workers -- homes have been passed down from father to son. Both the City of Bristol and Bristol Industries are being impacted by foreign competition -- one depending on the other as each strives to survive in the present economic climate. The Bristol Industries has been in operation for 132 years through panics, depressions and recessions and it now has been given renewed hope to face the challenge of foreign competition from TAA.

It is my pleasure to introduce Mr. Bill Freeborn of Bristol Industries.

Sincerely,

Toby

Toby Moffett
Member of Congress

THIS STATIONERY PRINTED ON PAPER MADE WITH RECYCLED FIBERS

Mr. **Freeborn**. Are there any questions?

Chairman **Gibbons**. Well, sir, it is hard to ask you a question after such a complete statement as that. I am glad to know you do support trade adjustment assistance for firms.

I guess the only question I have is, is it fair for us to treat firms who suffer from trade adjustment assistance different than those who perhaps suffer from high interest rates, or maybe you have both problems?

Mr. **Freeborn**. At 5½ over prime, I think we qualify.

Chairman **Gibbons**. I know what you mean.

Mr. **Freeborn**. It is pretty heavy.

Chairman **Gibbons**. That is thievery, in my book.

Mr. **Freeborn**. There have been more descriptive words used.

Chairman **Gibbons**. Well, sir, I don't know what to tell you. I hope we can preserve the better parts of trade adjustment assistance. Unfortunately, the crafting of legislation is never perfect. It has taken much longer for trade adjustment assistance for firms to catch on than we thought.

This is the first favorable publicity I can remember about trade adjustment assistance for firms almost 7 years after the law became effective.

Mr. **Freeborn**. Mr. Chairman, I think people had a lot of doubts about trade adjustment.

Chairman **Gibbons**. Sure.

Mr. **Freeborn**. They had a lot of doubts about is this more government intervention.

Chairman **Gibbons**. That is absolutely right.

Mr. **Freeborn**. I think trade adjustment in these past several years has done a lot to dispel this type of doubt, this question. I think this is basically because of the kind of people that you have out there representing the Government in trade adjustment.

Chairman **Gibbons**. That is good to hear. That is good to hear. I will see what I can do to convince the rest of them again.

Mr. **Freeborn**. If you need help, sir, I would be glad to offer it.

Chairman **Gibbons**. We need a lot of help.

Our concluding witness is Mr. Peter Nelsen, President of the Agricultural Trade Council.

STATEMENT OF PETER NELSEN, PRESIDENT, AGRICULTURAL TRADE COUNCIL, WASHINGTON, D.C.

Mr. **Nelsen**. Mr. Chairman?

Chairman **Gibbons**. You may proceed as you wish.

Mr. **Nelsen**. Thank you.

Chairman **Gibbons**. Sorry we had to keep you to the last.

Mr. **Nelsen**. I appreciate being here. I didn't mind at all.

May we have our whole statement entered in the record?

Chairman **Gibbons**. Yes, sir, it will be. You may proceed however you prefer.

Mr. **Nelsen**. Thank you, sir.

Many of the sentiments expressed here earlier today I think can be, in part, corrected by what we are going to address, which is export promotion. If the United States can increase its exports by 20 percent, we will wipe out unemployment entirely. Of course, that is a theoretical idea because you cannot have zero unemployment.

If we increase our exports by 10 percent, we will reduce our unemployment to only 5 percent, which is generally considered the ideal level. This can be done by new and innovative export promotional programs. I am here to talk about one of them.

The President at Cancun and also the other night at the OAS meeting emphasized the need for private involvement in export promotion rather than relying on just the Government to do that. Also, a recent joint resolution by both Houses came out and said that private industry should do things rather than the Government wherever private industry was able to do that.

In line with that sentiment, I would like to talk about an international trade center and a new export marketing system that our trade association, in cooperation with several other trade associations, has developed over the last 5 years.

It is called AG-EXPO, and a new name coming about is TRADEXPO, because it involves more than just agriculture. It involves all the basic human needs areas: Housing, energy, transportation, medicine, sanitation, education, and so on, what used to be known as agribusiness or what is part of a rural economy. These are the areas where we have the greatest export potential, expecially the Third World countries.

Our program is designed particularly for small- and medium-sized companies. The large companies—and I am saying this tongue in cheek because most of the members of our trade assocation are large companies, so I have to say it in a diplomatic way—the small- and medium-sized companies have the greatest potential for expanding trade. Because our total trade has been measured by the larger commodity groupings: wheat, soybeans, corn, and so on.

To expand the total volume export we must expand the base of exports, get more commodity groupings involved and more people out there marketing and in competition with our overseas competitors.

TRADEXPO is a permanent, year-round trade center designed for the foreign buyer who comes to the United States to buy U.S. commodities, products, and services. It is open 300 days a year and combines a trade center with 200 major commodity groups and a research and educational center.

The educational center is based on seminars, research, and education in the areas of basic human needs, overseas development, and the transfer of technology for meeting basic human needs.

The concept is that the foreign buyer can come and learn the latest technology and see it in actual operation, in full-scale demonstration units, on 4,000 acres of land that we are purchasing outside of Washington in southern Maryland.

The unique thing about the center is that it is totally self-financing. The exhibitors will pay the initial development cost and the operating cost. The surplus revenue from the exhibit center funds the research and the education so we don't have to go and look for a grant every year.

You might ask why we are here. Well, to prime the pump or get the thing started, we have been looking for a $10 million loan or grant to acquire the property so that we won't have to be selling blue sky.

The proposed budget in fiscal year 1983 for export promotion and related things is about $18 billion, of which about $10 billion is related to things other than military, as we see it. And $10 million of that for TRADEXPO is a pittance. If you consider the cost-benefit projections, the feasibility studies that have been done on this proves that it is a very good investment for a one-time test of a new and innovative system.

It will allow companies to do business overseas who are not doing business now. It will allow small companies to enter the market and test their product against 150 countries and see where the best market is for their products.

The cost-benefit ratio is about five times better than the normal systems of marketing through agents, distributors, overseas subsidiaries, or overseas manufacturing and royalty agreements and so on.

It sounds like we are just doing a long commercial for this. Maybe we are. But in fact, it is a very new and innovative system. We feel that it deserves a try. It will not only help our companies get involved in exporting and broaden our base of exporters, but it will help Third World countries whom we depend on for critical minerals and whom we depend on as future trading partners have their populations become self-sufficient so that they in the long run can become customers of the United States for more of our exports.

We don't have to say we have a humanitarian obligation to help them. We can say it is in our best interests to help them. Either way, the end result will be the same.

We would like to submit an information exhibit for the record, if we may.

If the committee so feels, our funding could be done by wording of the committee report language or by an amendment to the bill to prime the pump, so to speak, to get the thing going.

I would like to answer any questions you might have. I can go on talking about this for days. I know you have other things on your schedule.

[The prepared statement follows:]

STATEMENT OF DR. PETER J. T. NELSEN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AGRICULTURAL TRADE COUNCIL

Mr. Chairman and Members of the Committee. I am Dr. Peter Nelsen, an economist and President of the Agricultural Trade Council (ATC) and the International Trade Council (ITC). I am also Chairman of the International Development Institute (IDI), a research and educational institution dedicated to the development of international trade and the transfer of appropriate technology to meet basic human needs.

We appreciate the opportunity to appear before the Subcommittee on Trade. We commend you on the in-depth scope of your hearings on the vital issues pertaining to foreign trade, but will confine our remarks to only one aspect thereof today, namely Export Promotion.

President Reagan has called for new and innovative approaches to export expansion and at Cancun he called for the private sector to take the lead in export development and in overseas development. These sentiments were repeated this week by the President at the OAS meeting here in Washington.

Several weeks ago both Houses of Congress passed a joint resolution that government should as a matter of policy refrain from competing with private enterprise and should cease engaging in activities which the private sector could perform better. With these facts in mind, I will outline a new and highly innovative private enterprise of export development known as AG-EXPO and TRADEXPO.

TRADEXPO, after 5½ years of development and planning, is a permanent year-round trade center where 200,000 foreign buyers who come here each year will be able to find all their needs in commodities products and services pertaining to basic human needs in one place—300 days a year.

What makes TRADEXPO more unique is that it is a third part of a combined Trade Center, Educational Center and Reserach Center, known as the International Development Institute (IDI) where foreign buyers, academinas and government officials from the 150 countries around the world will be invited to attend monthly seminars on various aspects of economic development and technology to meet basic human needs and where applied research and technology from the best land grant colleges and research institutions will be demonstrated in full scale farming and production units on 4,000 acres of land here within an hour of Washington.

Thus the visitors will be able to learn the latest technology—see it demonstrated in actual production units and purchase either full scale operations as turn-key projects or purchase components at the Trade Center.

The advantage to the producer is economical access to a steady flow of buyers from 150 countries without the expense to the producer or the negative drain on our foreign trade balance of having to carry the product line to each of the 150 countries.

The fiscal year 1983 budget for international affairs is $18 billion. While this includes some nontrade items, there are export related costs that are included elsewhere in the overall budget so that our export trade costs to the taxpayer is well over $10 billion each year.

TRADEXPO and IDI is designed as a not-for-profit corporation which is totally self-financing with the net revenue from the trade center funding the research and the educational center.

While the trade center is available to all producers of products and services related to basic human needs, large and small, it is of particular benefit to small and medium size companies who are ready to enter the export market, but who may lack the experience or distribution channel that the larger companies already have.

We herewith ask that a one time allocation of $10 million be allocated by inclusion or amendment to the appropriations for fiscal year 1983 or that the committee direct the allocation out of discretionary funds in their report language for an initial development budget for TRADEXPO.

The total development budget over the first five years is $240 million and will come from the participating exhibitors as advance payments on their leases and the operating budgets are met each month from current lease payment. TRADEXPO thus becomes entirely self-financing and the initial budget request can be repaid within five years.

The budget, prepared by the Executive Office of the President, states as goals under International Affairs section:

"Help friendly Third World countries develop economically through cooperative actions in trade, investment, energy, and agriculture, consistent with the spirit of the Cancun Summit.

"Provide humanitarian assistance abroad.

"Stimulate mutually beneficial trade relations with other countries."

We meet three of the seven goals stated there.

Under Agriculture we meet the following three of the four goals stated there:

"Ensure a healthy, free-market oriented U.S. farm economy with minimal Government interference.

"Encourage the conduct of research to increase the quality and production of agricultural commodities.

"Provide agricultural commodity marketing services on a user fee basis."

While other countries who are our major competitors in the world market spend up to five times as much in direct and indirect benefits to their exporters and for trade promotion as does the United States, we can not in good conscience say that if you help launch the TRADEXPO by allocating a nominal $10 million for a start-up budget, you can reduce funding for some less effective programs because the export programs that are in place do some good, but with just 275 companies exporting 80% of our total exports there is obviously a need to broaden the base of exports and exporting companies.

ATC, ITC, TRADEXPO and IDI hope to fill this need and to serve as a model of other new private export initiatives in the '80's. We submit herewith an Information Kit for your information and thank you for your kind attention.

Chairman GIBBONS. We would be glad to receive your kit. I will ask the staff to receive it. You sent me one some time ago. I looked over it. You have a very interesting proposal. I wish you well.

With the Government's deficit problems, I doubt we could appropriate any money for this kind of purpose, although it may be a wise thing to do at this time. I recognize if we could just increase our export trade, particularly in some agricultural products, we would do a lot better as far as jobs are concerned. That has a ripple effect all through the economy. I should say a wave effect all through the economy.

You are to be commended for your TRADEXPO vision and work.

This concludes our hearings on the administration's fiscal year 1983 budget. As we stated in the press release announcing this hearing, the record will be open until the close of business today in preparation for the subcommittee's markup next Wednesday, March 3.

The meeting is adjourned.

[Whereupon, at 2:20 p.m., the hearing was adjourned.]

[The following was submitted for the record:]

DAN BAILEY,
Livingston, Mont., February 22, 1982.

Mr. JOHN SALMON,
Chief Counsel, House Ways and Means Committee,
Longworth House Office Building, Washington, D.C.

DEAR MR. SALMON: While I am generally in favor of less government assistance, I feel the Trade Assistance Program pays for itself. At this time we are hiring people, while the rest of the country is laying people off. This is due because we were given assistance from the Trade Assistance Program.

We had been losing sales for several years due to imports. With the technical assistance which was made available to us, we were able to solve a manufacturing problem. Also we were able to develop a new marketing approach which has had great success to date. We have increased sales 50% in one year due to this.

We have increased the number of people in our manufacturing section by about 20% in the past year. It had been declining since about 1974. Indications are we will continue to increase the number of people in the next several years.

Without the Trade Assistance Program, we would still be declining. We had no expertise in obtaining the technical knowledge we needed to turn this decline around. Small businesses are in need of knowledge and access to it and this program provides this needed service.

Sincerely yours,

JOHN BAILEY, *President.*

STATE OF CONNECTICUT,
Hartford, Conn., March 5, 1982.

Mr. JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means, House of Representatives, Longworth House Office Building, Washington, D.C.

DEAR MR. SALMON: I wish to go on record in support of the continued funding at effective levels of two very important economic incentive programs—Trade Adjustment Assistance and Industrial Revenue Bonds.

Both programs are instrumental in helping manufacturers in the United States compete more effectively in the world marketplace. At a time when all of us are interested in the so-called "reindustrialization" process and making America competitive, I believe we must retain the tools to help bring about this worthy and critical objective.

Trade Adjustment Assistance provides an opportunity for industry in import-affected fields to diversify and obtain new markets. It also helps displaced workers who lose jobs because of unfair import practices to secure new training for new employment opportunities.

Industrial Revenue Bonds have been an important incentive to industrial expansion because they represent one of the very few federal contributions to our nation's struggle in competitive world markets. Our manufacturers must compete against companies who are heavily subsidized by their own governments, and revenue bonds have been a source of low-cost capital to help American industry expand and become more competitive.

I appreciate your attention in this matter.

Sincerely,

WILLIAM A. O'NEILL, *Governor.*

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., March 2, 1982.

Hon. DAN ROSTENKOWSKI III,
House of Representatives,
Washington, D.C.

DEAR DAN: It is my understanding that the Subcommittee on Trade of the House Ways and Means Committee is considering the elimination of the Trade Adjustment Assistance program under the Trade Act of 1974.

Under this program producing companies such as manufacturers and contractors who have been adversely affected by import competition or are likely to be so, receive technical assistance and adequate funding to adjust to business problems caused by such foreign competition.

In Puerto Rico there are presently about 200 manufacturers who provide more than 5,000 jobs and which have been severely affected by imports of products manufactured outside the U.S.

The program started in Puerto Rico in 1980 with an appropriation of $100,000 giving technical assistance to 12 firms which provided around 300 jobs. Next year it was reaching full implementation with an appropriation of $300,000 and assistance to 25 firms which provide more than 1,200 jobs.

To help them make the appropriate adjustments, the program also provided financial assistance to more than 45 firms by either giving them direct loans or guaranteeing their loans.

This program plays a vital role in the development of our industry, our economy, and the maintenance of jobs. Its elimination will only help foreign manufacturers and industry who do business in the United States increasingly affecting our balance of payments and our economy as well. It has been one of the four programs which have been successful in battling those consequences.

I will appreciate your taking into consideration the importance for our Nation of maintaining this program.

Cordially,

BALTASAR CORRADA, M.C.,
Resident Commissioner.

STATEMENT OF FOOTWEAR INDUSTRIES OF AMERICA

FUNDING OF THE TRADE ADJUSTMENT ASSISTANCE PROGRAM FOR FIRMS

Introduction

Footwear Industries of America (FIA) is a trade association representing domestic manufacturers of nonrubber footwear and suppliers to the footwear industry. We are pleased to have the opportunity to comment on the FY 1983 budget for the Trade Adjustment Assistance Program for firms, administered by the Department of Commerce.

The Trade Adjustment Assistance Program has been utilized extensively and with positive results by the footwear industry. We believe that funds must be maintained at sufficient levels to support this program, especially since it is one of the few alternatives to import relief to aid firms threatened by import competition. The TAA program holds promise of helping many footwear companies, although the full impact of the program has not been realized yet.

Specifically, the Trade Adjustment Assistance Program has been utilized by footwear firms to improve manufacturing, marketing and management functions. Also, the industry's highly successful export promotion program was funded, in part, by trade adjustment assistance. TAA also was used to provide start-up funds for the

American Shoe Center, an organization established to provide technological, training and testing services to help the industry improve its productivity. Finally, funds recently were obtained to study state-of-the-art technology for the footwear industry.

Background

The domestic footwear industry long has been seriously threatened by imports. A four-year (1977–1981) import relief program, consisting of Orderly Marketing Agreements limiting nonrubber footwear imports from Taiwan and Korea, was terminated by President Reagan on June 30, 1981, despite a recommendation by the International Trade Commission that the OMA with Taiwan be continued. Prior to the imposition of import relief, throughout the relief period, and since termination of the program, imports have captured roughly one-half of the domestic nonrubber footwear industry. Based upon recent trends, imports could increase again in 1982. Further clouding the outlook for domestic producers is the possibility of the creation of a one-way free trade area between Caribbean Basin countries and the U.S., a key provision of the Administration's Caribbean Basin Initiative. Duty-free treatment will encourage increased footwear imports from the region, further threatening the domestic industry.

Moreover, with the continued strength of the dollar, imports become cheaper vis-a-vis domestic footwear, encouraging the growth of imports (while our manufacturers' export growth is hindered since their products become relatively more expensive in foreign markets). These factors, combined with a shaky retail outlook, indicate that this could be an extremely difficult year for the shoe industry.

Utilization of trade adjustment assistance by the footwear industry

Utilization of trade adjustment assistance benefits increased markedly between 1977 and 1981. In conjunction with import relief, the Carter Administration directed the Department of Commerce to develop a program to help revitalize the domestic footwear industry. This industry specific program included efforts to revamp the adjustment assistance program to speed up certification procedures and to make loans and loan guarantees more attractive to certified firms.

However, much of the actual assistance to the industry was not obtained until 1978 and 1979, and, given the long-range nature of some of the projects, results are just beginning to be seen. Indeed, the most recent (February 1980) report of the Department of Commerce evaluating the program indicated that only 18 companies receiving TAA were sufficiently far enough along at that time for even preliminary evaluations to be made. Since 98 companies had been certified by that time, and 81 companies had received technical assistance or loans, this was a small percentage of those firms being assisted by the program.

But the preliminary results were ecouraging. Of the 18 technical assistance projects evaluated by DOC, the Department reported that: ". . . annual savings documented or achieved by individual firms through cost reductions, increased productivity and factory method improvements have provided the most significant indication of positive results from the footwear consulting team program."

Performance indicators for the 18 companies evaluated indicated an improved performance in terms of nearly all indicators, as the following table illustrates:

AVERAGE OF PERFORMANCE RESULTS FOR 18 OR LESS CERTIFIED FIRMS IN AREAS WHERE POSTDIAGNOSTIC TECHNICAL ASSISTANCE HAS BEEN RECEIVED

	Before TAA	After TAA	Net change or percent change
FINANCIAL/OPERATING			
Net profit before tax (percent of sales)	−6.3	3.6	9.9
Gross margin (percent of net sales)	12.8	17.0	4.2
Average hours worked per employee per week	36.5	36.5	n.c.
Operator earnings (annual dollars)	7,531	8,438	12.6
Employee turnover (percent)	89	77	−12
MANUFACTURING			
Production (pairs)	320,029	378,452	18.3
Productivity (number of pairs per employee per man-hour)	3.27	3.88	18.7
Factory defect rate (percent of total production)	4.3	2.7	−1.6
Work in process turnover (number of production days)	22.9	17.2	−24.9
Raw material turnover (number of production days of raw material utilization)	37.8	28.5	−24.6

A limited survey among member companies receiving TAA conducted by the American Footwear Industries Association (predecessor to FIA), in 1980, also indicated that the program had helped companies. The 12 firms sampled by AFIA should not be viewed as a representative sample but as an illustration of the program's success. Respondent firms tended, on average, to have received higher than average technical assistance grants (TA) and to have received loan money later in the program. (All firms received loans in fiscal year 1979).

	Number of firms	Technical assistance	Average technical assistance per firm	Loans received	Loan per firm
Survey respondents	12	$2,251,861	$187,655	$7,400,000	$1,850,000
Receiving TA	12				
Receiving loans	4				
All firms certified after July 20, 1977	98	7,147,6[illegible]8	95,302	40,924,000	977,381
Receiving TA	75				
Receiving loans	32				

Companies indicated that they requested technical assistance covering all areas of shoe manufacturing—marketing, supervisor training, production planning, warehousing, accounts receivable, management, manufacturing efficiency, scheduling, electronic data processing systems and controls, customer analysis, line structure, technical cost controls, inventory controls, among others. All of the firms cited thought the trade adjustment assistance program was at least somewhat helpful and, in half the cases, very helpful. Almost all firms cited many specific improvements which they had received from the program in all areas of shoe production. The following are some of the improvements cited:

Manufacturing

"Achieved some improvements in organization and work flow in the factor."

"Better factory supervisory participation in management."

"We were able to improve our incentive coverage, revamp our layout to improve product flow, we reduced our work-in-process, raw material turnover improved, improved employee earnings and improved productivity without increasing costs. We implemented a complete labor-cost control and payroll system and implemented a labor loading system (computerized). We've pinpointed daily those employees who need training."

"Set up central warehousing for raw materials—better control of materials and reduced materials inventory. Employed vice president of manufacturing—better control of quality flow and labor costs. Improved plant management effectively. Plans are underway to computerize manufacturing processes such as scheduling and materials control."

"By the use of our revised cost system the company should be able to identify and report costs by cost center on a far more timely basis. Also through the use of an automated cost system, cost tickets by style should be updated much closer to the time the cost changes occur."

"Anticipate an 11 percent improvement in productivity in our plant when engineering assistance project now being conducted is completed."

"We revamped our support functions for production scheduling, material purchasing and raw material and finished good control. We implemented an employee training program and a quality control program."

Marketing

"Shorten design cycle time from idea to shipment of product."

"As a result of the TAA, the company now has a documented business and marketing plan. Certain things have been identified within the plan that would improve the profitability of the company."

"Definition of our market area, share of markets, etc. Analysis of company image by dealers, competitors, etc. Analysis and restructuring of sales compensation program. Organizational plan for future marketing department. Evaluation of a dormant metropolitan market area and reactivation of it. Evaluation of sales representatives, productivity, and appropriate replacements suggested and made."

"Organizational change and better sales territory alignment."

"Started a new company with higher priced line of branded footwear."

Financing/Management/Organizational Structure

"Assistance in developing some elements of a policy on accounts receivable program. Development of some policies in credit department and reinforcement of actions previously taken internally to correct the approach to these problems. Consulting with management staff group on all phases of the business."

"Accounting and payroll have been integrated and computerized for total corporation. We have taken the first steps toward a totally integrated organization structure."

"Decreased reliance on factoring and short-term financing. More favorable interest rates."

It should be noted that roughly three-fourths of the certified firms received technical assistance, with the average technical assistance grant being approximately $95,000.

Of the 18 technical assistance projects evaluated by the Department of Commerce, projected benefits in the range of $150,000 to $825,000 appeared to indicate that the technical assistance given by the government more than paid for itself, as the following table illustrates:

PROJECTED BENEFITS/SAVINGS FOR 18 OR LESS CERTIFIED FIRMS IN PHASE II/III IMPLEMENTATION PROJECTS

Cost reductions/savings	Annual savings all projects	Annual savings range/ project
Stitching room production costs	$186,000	$186,000
Materials utilization	1,127,660	66,900 to 350,000
Elimination of inventory loss ("close-outs")	425,000	35,240
Productivity and factory methods and improvements	2,142,637	154,460 to 350,000
Operator earnings (savings passed to employees)	190,860	53,833 to 79,000
Reduction in sales expense	305,000	305,000
Overhead absorption	56,520	56,520
Total	4,433,677	150,000 to 825,000

Export promotion

As part of its effort to revitalize the domestic footwear industry and help it adjust to import competition, the Department of Commerce and AFIA also established a joint program to expand exports. The success of this program can be seen in the dramatic increase in exports of domestic footwear. Since the program was conceived in 1977, exports of footwear increased from 5.4 million pairs to 13 million pairs in 1980, with dollar sales increasing from $35 million to $112 million. The Department of Commerce supported this growth through the funding of trade shows in Europe, through extensive market research and through staff support of trade missions.

In 1981, exports declined by 14 percent in pairs from 1980 record levels, due to a dramatic decline in sales to Argentina (the principal market in 1980) and the continued strength of the dollar abroad. If Argentina is excluded from both years' figures, exports in 1981 actuallly increased by 3 percent. Also, the total value of footwear exports continued to increase, up 10.7 percent for the year, despite the loss of the Argentine market due to its peso devaluation.

Throughout 1978, 1979, 1980, and 1981, the focus of the export development effort was Western Europe. Market Research, trade missions, participation in German and

Italian national footwear exhibitions, and seminars for U.S. companies succeeded in promoting the "American lifestyle" and resulted in significant gains in sales.

The Caribbean and Latin America is the second region of the world where potential exists to expand exports of American footwear. An export promotion program focusing on Latin America is now underway with a Trade Mission scheduled for June to Panama, Chile and Argentina. It is expected that new companies will be recruited into the export program, especially from the volume and low end of the industry, the segment most trade impacted.

Further, our association's record of recruiting trade certified firms into the export program has been very good to date. If each export event (i.e., trade mission, trade show) is counted separately, as they should be because each involves a separate participation fee, different timing, different locations, and different marketing strategies, we have had a total of 185 participants in the four years of the program. Of these firms, fully 75 are certified for trade adjustment assistance.

It is important to note that firms are not relying solely on government assistance in their export efforts. The financial investment by firms in the export program has been significant. For each initial participation in an overseas trade show, firms have paid $250 to $300 per event. All subsequent participations have cost each firm $2,500 to $3,500, and many firms have been with the export program since its inception. Trade missions have cost each participant, regardless of prior participation, anywhere from $750 to $1,200 per trip. In addition, footwear executives travel several times a year to Europe on their own to visit with agents or new accounts. For many smaller and medium sized companies, the export manager also is the chief executive officer—this means a heavy resource investment on the part of the firm where a CEO expends this much time abroad pursuing exports.

American Shoe Center

Another use of trade adjustment assistance funds which is benefitting the domestic footwear industry was the establishment of the American Shoe Center (now consolidated with AFIA to form Footwear Industries of America). The "Footwear Center" concept was a part of a technological assistance proposal that AFIA submitted to the Department of Commerce shortly after implementation of the DOC Footwear Revitalization Program.

The Center was formed as a non-profit organization with a start-up grant from the Department of Commerce, with the intent that it be totally funded by its member companies and income from special projects. The Center has provided the industry with numerous services to help improve productivity. For example, it provides the industry with information on materials and products through laboratory investigations and analysis of manufacturing methods and equipment. Also, the Center has developed training programs for supervisors and managers to improve efficiency and productivity.

State-of-the-art-technology

Recently, funds were obtained to accelerate the application of advanced technologies in the U.S. shoe industry. While the establishment of the American Shoe Center was undertaken to bring about major improvements in the technological base and the management skills of the industry, the flow of new technology throughout the industry must be accelerated to enhance its productivity. Thus, funds were made available to provide the means for the footwear industry to review and assess technology which, when applied, will lead to the development of a stronger and more competitive footwear manufacturing industry. Special attention will be given to the needs and capabilities of the smaller firms, which in the past have not been able to incorporate new technology on a timely basis into their manufacturing operations.

CONCLUSION

Trade adjustment assistance funds have benefitted the domestic footwear industry in its efforts to improve its productivity and compete more vigorously with imports. They have been applied in a wide variety of ways—to enhance manufacturing operations and marketing initiatives, including exports; to improve financial and management techniques; and to develop and encourage new technological processes throughout the industry. It is essential that funding of the Trade Adjustment Assistance program for firms be maintained at adequate levels to aid those firms adversely affected by high levels of imports. If properly monitored and administered, such funding will not amount to a mere government handout; rather, the funds can be used judiciously to strengthen firms and help them adjust to import competition.

MIAMI, FLA., *February 25, 1982.*

Representative SAM GIBBONS,
Subcommittee on Trade, Committee on Ways and Means,
Longworth Building, Washington, D.C.

DEAR MR. CHAIRMAN: This letter states the position of the Special Committee on International Passenger Services of the Greater Miami Chamber of Commerce regarding the Customs Budget. The problem of unreasonable delays in Customs Inspection is one that has plagued passengers and businessmen at Miami International Airport for several years. These delays have clearly made arrival and importation into the Port of Miami an extremely unpleasant experience.

In the recent past, the Greater Miami area has become an increasingly important tourist and trade center. Accordingly, traffic passing through the Miami International Airport has increased in phenomenal numbers. In fact, data indicate that international air arrivals have been doubling every five years. Available statistics from the United States Customs Service illustrate a continuing growth trend as the total number of international arrivals requiring federal inspection for 1980 increased by 19.3% over the number in 1979; the total number of international arrivals requiring federal inspection for 1981 increased by at least 9.3% over the number in 1980.

Several measures have been taken to combat these processing problems. On August 4, 1981, the Federal Government instituted a one-step method at Miami International Airport. The goal of the procedure was to clear international passengers within forty-five (45) minutes thus eliminating the Customs delays of several hours. In addition, more personnel were hired for inspection and processing at Miami.

Despite the efforts and attention of the Federal Government and the good faith of the Customs and Immigration officers, the delays continue. Although such programs as the Citizen Bypass, the one-step method, and the Accelerated Specialized Inspection System Test (ASIST) have resulted in some savings, they cannot be an effective substitute for necessary personnel. This is evidence by the delays that continue at peak periods. The recent allocation of manpower promised by Vice President George Bush is geared to specifically combat the drug trafficking problem in Miami and will have no impact on the concerns discussed herein. It should be noted that the number of Customs personnel will be reduced by 1,504 positions in addition to an attrition rate of 800 persons. Clearly the situation in Miami indicates that it would not be wise to dislodge any personnel from the inspection process.

Unfortunately there has been an historical preference for provisions of Customs personnel in the Northeastern area of the country. However, the Northeast is no longer the site of overly heavy importations and arrivals. Despite this shift in activity, Miami still suffers from this preference for the Northeast.

The primary solution to these problems is the enlargement of the Customs staff at Miami International Airport. These are several ways to correct the current misappropriation of personnel. Suggestions include:

1. Reallocate inspectors from the Northeastern areas to the Miami area.
2. Hire additional personnel.
3. Reassign Customs employees now working within the District or Region.
4. Retrain Alcohol, Tobacco, and Firearms agents for inspection services.

We respectfully submit that increasing the number of Customs personnel in the Miami area will undoubtedly upgrade conditions for arriving passengers and commercial transactions. It should be noted that Miami has taken on the role of the gateway to Latin America. The increasing importance of that role has been emphasized by the President's recent presentation of the Caribbean Basin Initiative. The President has personnally expressed a strong interest in United States involvement in this area. This role should not be hindered by Miami's inability to handle commercial and tourist activity at the International Airport.

Very truly yours,

SANDLER & TRAVIS, P.A.,
By THOMAS G. TRAVIS.

STATEMENT OF SOL C. CHAIKIN, PRESIDENT INTERNATIONAL LADIES' GARMENT WORKERS' UNION, AFL-CIO

This statement is submitted on behalf of the International Ladies' Garment Workers' Union and its more than 300,000 members who produce all types of women's and children's apparel. Our organization has a great concern with the effectiveness of the federal government's operations in the foreign trade area, particularly with respect to proper controls and data collection on imports. The survival of our industry and job opportunities for garment workers depend on timely action, based on proper data, being taken to analyze the imports, prevent unfair practices by foreign exporters, properly administer and enforce the various agreements the United States enters into with exporting nations and ameliorate the injury to workers and firms. None of these essential activities can be accomplished unless the agencies involved are properly and sufficiently funded. We, therefore, urge the Subcommittee to reject any proposed budget cut for these essential agencies and programs. Specific comments on a number of the programs follow.

CUSTOMS SERVICE

The ILGWU is particularly disturbed at the prospect to any further reduction in the budget for this vital agency. Prior cuts have already hampered the Service's ability to adequately perform its functions. Further cuts would cripple it and cause major injury to the nation and in particular to the textile and apparel industry. This is the one area where reductions are self-defeating since Customs is also a revenue source for the federal Treasury.

The Customs Service has a multi-faceted role vis-a-vis apparel imports. One of its tasks is to collect the proper duty on merchandise entering the United States. In the apparel field the decisions are complex and errors can be exceedingly costly to the government. For example, the duty on certain woven cotton apparel is 8 percent if the garments are not oramented but 32 percent if they contain ornamentation. Determining whether ornamentation is present is a fine art, requiring skill, knowledge and careful inspection. An erroneous classification can cost the United States Treasury $24 for each $100 worth of goods so imported. Such errors are no small matter considering that billions of dollars worth of apparel enter the country each year.

Customs is responsible for determining the duty due on products assembled abroad of U.S. components and returned to the U.S. under provisions of Item 807.00 of the Tariff Schedules. This is also a complex matter requiring careful analysis of documentation to determine the value of the U.S. component and that of the final product. It is subject to frequent error and misrepresenation by the importing party. Staff reduction will encourage violation and loss of revenue.

Lastly, Customs is responsible for enforcement in the field of the Multifiber Textile Arrangement and the bilateral agreements negotiated thereunder. This requires accurate determination of the correct classification of entering goods so that they may be charged to the correct quota line. Customs must also determine whether the actual country of origin has been indicated. There have been many instances where shippers find that a given quota is filled and resort to subterfuge as to either product or country of origin classification in an attempt to evade the quota. An article in the Women's Wear Daily on January 6, 1982 reported that $30 million dollars worth of jeans made in Hong Kong were shipped to the U.S. via Indonesia and Singapore to evade quotas. Clearly this is not a minor problem. If anything, the Customs staff devoted to enforcement of U.S. textile and apparel programs should be increased to prevent violation and to avoid injury to American firms and workers.

COMMERCE DEPARTMENT PROGRAMS

Negotiation of agreements covering shipments of apparel and textiles and the careful administration of concluded agreements require basic statistics and analysis of imports and domestic production. Up to date information on potential import threats and on disruption of domestic markets is most essential in this connection. It is, therefore, of great importance that Commerce Department functions relating to textiles and apparel not be curtailed. This includes import control programs as well as those related to the expansion of exports.

TRADE ADJUSTMENT ASSISTANCE

The recent emasculation of the trade adjustment assistance program should be reversed and at a minimum the prior provisions restored. This program is being dealt with in more detail by the AFL-CIO testimony in the instant hearing. We fully concur with their recommendations in this vital area. The program is of particular importance to garment workers, who are typically older and generally have less than average educational attainment and whose present skills are not readily transferable to technology-intensive industries. When they lose their jobs, they generally have few alternatives for new employment. Adjustment assistance including training is, therefore, vital to them.

Statement of Leonard R. Page,[*] Associate General Counsel, United Automobile, Aerospace & Agricultural Implement Workers of America (UAW)

The International Union, UAW, represents approximately 1,300,000 workers. On behalf of these workers, their families, and their communities, we strongly oppose the termination of Trade Adjustment Assistance (TAA) as the fiscal 1983 budget proposes.

The President's fiscal year 1983 Budget seeks elimination of the weekly cash benefit known as trade readjustment allowances (TRA), as of July 1, 1982 and a shifting of training and job search and relocation programs to a pooled training program with limited funds.

The UAW believes that this proposal is contrary to a 20-year old covenant with labor. That covenant pledged that the victims of liberal trade are entitled to special federal benefits to help them adjust to new jobs. Import-impacted unemployment is unlike most other forms fo work loss, because it can be traced direclty to changes in federal trade policy. Five former Presidents and the 1980 Republican national platform have recognized this fundamental by supporting TAA.

What has changed since 1962 to make import-impacted unemployment less worthy of this assistance? If the principle of TAA was justified for 20 years, why is it conceptually defective today? Normally, in proposing an elimination of such a program, one would assume that it is no longer needed. In this case, such reasoning would mean that either imports are not a problem or unemployment has substantially declined. But the reality is, of course, vastly different.

Unemployment in the auto industry is equal to past all time highs: 315,000 workers are currently laid off; of that number, 250,000 are indefinite or permanent. The heavy layoff level is in its third year and, thanks to interest rates and the current recession, no rebound is in sight. Throughout the economy, more than 9,300,000 Americans are out of work today. We estimate that another 1,200,000 have stopped looking for work.

Automotive imports continue at high levels. Not including imports from Canada, imported automobiles captured 27.3% of all new car sales in 1981. In January 1982, overseas imports have increased to 31.1% of the market—an all-time high. January, 1981 new car sales are down 43% from January, 1979. The total value of manufactured imports has risen from $77 billion in 1976 to $140 billion in 1981.

There has been no effective government policy to restrain the flood. If the 20-year old program of aid for the victims of trade policy is eliminated, can we expect a return to the trade quotas and tariffs in effect prior to 1962? Or does Congress intend to promote increased imports and offer nothing to U.S. workers displaced as a direct result of our trade policies? We believe the workers of America deserve answers to these questions.

The budget explanation for the elimination of TAA argues:

1. State unemployment compensation is adequate;
2. TRA is a disincentive to seek reemployment; and
3. Few TAA participants have used training, job search or relocation benefits.

1. *State Unemployment Benefits Are Neither Adequate Nor Are Such Benefits Available.*

The Report of the National Commission on Unemployment Compensation (July 1980) found many defects in our present "balkanized" system of state unemployment compensation. The state programs are far from adequate to deal with the present recession.

Moreover, the basic program of most states provides a maximum of 26 weeks of unemployment insurance. Up to an additional 13 weeks of extended benefits (EB) are available if the state's insured unemployment rate (IUR) triggers on. But last August, the Reagan Administration and the Congress eliminated the national trigger, raised the state triggers and redefined the term "unemployed" to exclude those who are receiving EB. These changes caused Michigan—the state with the highest total unemployment (14.4%)—and other industrial states, to "trigger off" the EB program.

Unemployment in the auto industry has fluctuated between 200,000–300,000 for over two years. We estimate that a majority of our members who are laid off have already exhausted their basic unemployment benefits or extended benefits where eligible. Calling the existing unemployment insurance program adequate is a cruel joke.

---

[*] Coordinator of the UAW's trade adjustment assistance program since 1970. UAW Legal Department, 800 E. Jefferson Avenue, Detroit, Mich. 48214—(313) 926-5216.

2. *TRA Is Not A Disincentive To Reemployment.*

Those who view unemployment insurance as a "paid vacation" for workers, have usually argued that adequate benefits are a disincentive. Some people want workers and their families on the verge of starvation so that even minimum wage jobs have dozens of eager applicants.

Aside from its anti-worker theme, the disincentive argument sounds a hollow ring when the national unemployment is 8.5% with over nine million workers out of work and another million plus workers too discouraged to even look. Just where are all these jobs that TRA has kept workers from taking?

If TRA was a disincentive, then one would expect that most workers would exhaust all 52 weeks of TRA. But prior to October 1, 1981 when TRA was equal to 70% of a worker's average weekly wage (up to $289 a week), less than 30% of all eligible participants drew more than 39 weeks of benefits. The TRA benefit now is equal to the state system benefit and is payable only after state benefits are exhausted. The average state benefit in only $150 per week.

3. *Training, Job Search And Relocation Have Not Been Used Because Of Self-Inflicted Wounds.*

The President's Budget Message also points out that a very small percentage of eligible participants ever benefited from the non-TRA aspects of the program. Given the fact that the Secretary of Labor has never sought adequate funds, or made any realistic efforts to promote these aspects of this program, this fact should come as no surprise. The fiscal 1982 appropriations for training are illustrative: In "reforming" the program last year by cutting TRA benefits by 76%, the Administration promised to make a real push for training, job search and relocation. The Administration promised $112 million for training—but only $24 million was ever appropriated.

Moreover, the "reforms" that took effect last October 1, resulted in the elimination of more than 25,000 auto workers from training programs. New guidelines issued by the Secretary of Labor make it more difficult for participants to get training. It appears that the Secretary of Labor has historically done everything possible to keep workers from using the non-TRA aspects of the program. A January 1980 survey of program participants in Michigan showed that 78% were interested in training, and 38% were willing to relocate. Yet state requests for training funds were cut back by the Secretary as being too ambitious. The Secretary's record on training has simply been a disaster.

The Administration now proposes to refer these workers to a new training program encompassing many groups who currently have special training programs—older Americans, migrants, native Americans, etc. Past budget authority for these separate programs (not including TAA) was $900 million. The Administration now proposes to add TAA participants (600,000 presently covered by certifications) and cap the total training outlay at $200 million. It is rather obvious that auto workers are going to be shortchanged once again. Given the overall cutbacks in training funds, it is clear that few import-impacted workers are going to "acquire the new skills they need to re-enter the workforce." [1]

To hear the cancellation of TAA described as "consistent with Administration policy of targeting aid to those most in need," [2] is a low and cruel blow. We have only contempt for the argument that workers are being helped by "reforms" which, in fact, eliminate long-standing worker relief programs.

The auto industry and its employees have suffered greatly during the last three years. The current slump is now in its 37th month of depressed sales. U.S. car output in January, 1981 (278,097 units) was the lowest since 1947. Two of the Big Three employers have reported huge losses in 1981. Hundreds of thousands of workers have been permanently laid off. Yet, the Administration now says that they are not among "those most in need." [3] If they aren't, who is?

THE UAW PROGRAM FOR TAA REFORM

The UAW not only opposes the destruction of TAA; we also call for a realistic and meaningful reform. These recommendations for improvement are advocated by the UAW based on our experience and that of our membership.

1. The one-year benefit period for TRA must be extended to 18 months.

Under last year's reforms, the benefit period for drawing TRA was drastically reduced. Now most workers exhaust their one year benefit period long before their 52 weeks of UI, EB and TRA have been used. Unemployment tends to be temporary before it becomes permanent. Thus, a one-year benefit period triggered by the exhaustion of state benefits, is simply too short. More than 90% of the 200,000 auto workers drawing TRA in September 1981, were thrown off the program by the change in benefit period. We are not asking for a return to the prior two-year benefit period, which renewed itself with each separation. An eighteen month benefit period is a reasonable compromise.

---

[1] 1983 budget message explanation of program changes on TAA.

[2] Ibid.

[3] Ibid.

2. The "suitable work" test and other eight-week penalties must be removed.

The 1981 Reagan "reforms" also imposed unnecessary penalties on TRA recipients. Beginning with the ninth week of TRA, the participant can be removed from the program by:

(a) Refusing a minimum wage job offer, now defined as "suitable work;" or
(b) Refusing to seek work outside the immediate job area; or
(c) Refusing training.

Such penalty provisions have no place in a remedial statute.

3. Training must be part of the entitlement package, so that adequate funding is available.

The Secretary of Labor has never shown any inclination to promote or encourage training programs. The Secretary has never even requested adequate funding for training. Prior to fiscal 1982, outlays for job search, relocation and training ranged between $5 and 16 million per year. The current appropriation of $24 million is far from adequate to retrain the thousands of program participants who have already applied. There is no logical reason for refusing to supply training services to a worker who applies for it and meets all the other eligibility requirements.

4. The entire program must finally be extended to parts suppliers who provide essential parts and services to import-impacted end products.

The denial of program benefits to those who supply essential parts and services to end-product-producers affected by imports has been one of the greatest failures of the program. It simply makes no sense to have benefit eligibility turn on corporate structure rather than what the worker actually makes. Now that TRA is really a second EB program with limited TRA costs, the time has come to correct this deficiency.

5. Workers petitions should be processed within 60 days of filing and a majority of these petitions must be granted when imports and unemployment are high.

Section 223(a) of the Trade Act calls for determinations to be made within 60 days of the petition-filing date. However, the Office of Trade Adjustment Assistance is taking more than six months to process worker petitions. And when the decision is finally rendered, 90% of the time it is negative (at least since 1981). In 1974–75, the petition approval rate was 50%. Imports and unemployment are at record levels, yet only 9% of the worker petitions are being approved. We believe Congress should press the Secretary of Labor for a detailed explanation of its low approval rate.

CONCLUSION

The justifications for maintaining a trade adjustment assistance program are even stronger today than in 1962 when the new program was debated and enacted. Since all citizens supposedly benefit from liberal trade policies, it is only fair that the few victims displaced be given some assistance to restart. The 20-year covenant of this government with the American workers must not be repudiated.

Laconia Shoe Co., Inc.,
Laconia, N.H., February 19, 1982.

Mr. John J. Salmon,
Chief Counsel, Committee on Ways and Means, House of Representatives, Longworth House Office Building, Washington, D.C.

Dear Mr. Salmon: My name is Robert J. Selig, Chairman of the Board of Laconia Shoe Company, Inc., Laconia, New Hampshire. I can be reached by phone at (603) 524-2000.

Our company manufactures and sells a broad line of branded and unbranded men's and women's footwear for the United States markets, as well as for export.

I am writing this letter to you in strong support of continued funding in the 1983 Federal budget for the Trade Adjustment Assistance Program for U.S. workers and firms, as is presently administered by the International Trade Administration.

Our company has been, and still is, affected in a most detrimental way by the competition of imported products, much of which has been certified as unfair by the Commission itself. We have been helped considerably in our survival effort in recent years by this Trade Assistance Program. I still consider its continuation in the foreseeable years as indispensable to the full competitive rehabilitation of our industry.

I have personally communicated, on several occasions, with Congressman Norman D'Amours concerning such problems, and I sincerely hope that his office will confirm to the Committee the importance of continuing this program.

Sincerely,

ROBERT J. SELIG,
Chairman of the Board.

LAMIGLAS, INC.,
Woodland, Wash., February 19, 1982.

MR. JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means, House of Representatives, Longworth House Office Building, Washington, D.C.

DEAR MR. SALMON: I am advised that your committee will soon consider the possible demise of the Trade Adjustment Assistance Program. Lamiglas, Inc. is a company that is deeply indebted to this program for financial aid and for counseling and other assistance given to us by the Western TAAC office and from the Economic Development Council of Puget Sound. Trade adjustment assistance has enabled us to effect a drastic turn around in our company.

Our industry has been severely affected by foreign imports to the extent that now approximately 75% of the fishing rods sold in the United States are manufactured in foreign countries. With the aid of trade adjustment assistance, we have been able to move from a near bankruptcy situation in 1978 and 1979 to a much more financially stable position today with solid identity in the domestic marketplace.

I am aware that drastic cuts must be made in government spending to give our country the ability to work its way out of the present economic dilemma. This is not unlike the situation we found ourselves in three years ago in our own company. However, I feel strongly that the trade adjustment assistance program should remain intact if at all possible and sincerely urge you to give it your full support. If our company may be used as an example, this program has saved a domestic tax paying corporation that employs an annual average of seventy-five people, with annual sales of approximately $2,500,000, or which approximately 10% is exported to other countries.

It is doubtful that Lamiglas, Inc. would be in existence today without the help given to it by the Trade Adjustment Assistance Program. I will greatly appreciate anything you can do to help insure the continuance of this program.

Sincerely,

DICK POSEY, *President.*

THE OXFORD CORP.,
Oxford, Pa., February 25, 1982.

COMMITTEE ON WAYS AND MEANS,
Longworth House Office Building,
Washington, D.C.
(Attention of Mr. John J. Salmon, chief counsel.)

GENTLEMEN: I have just learned that an action is underway to eliminate the budget for the Trade Adjustment Assistance program which provides direct loans or loan guarantees to individuals and firms that have been injured by foreign imports.

As a producer of canned mushrooms, my firm has been seriously impacted by foreign imports, particularly those from Communist China since its admission as "most favored nation".

We have been working toward an Adjustment Assistance loan or guarantee for nearly 3 years; we have invested nearly seventy thousand dollars in satisfying the documentary requirements of our application achieving Certification of Injury and approval of our Adjustment Strategy. We are now fulfilling the documentary requirements to apply for the Trade Adjustment Assistance Loan Guarantee to a participating local bank.

Because unfair competition from Communist China has devastated the United States Mushroom Industry, participating banks are not willing to continue lines of credit necessary for industry operations without such guarantees. My firm may cease to exist necessitating corporate and personal bankruptcies of its principals.

Rebuttal citing the current U.S. economy as the cause of our industry plight is not valid. We have survived and grown through varied economic conditions from depressions and world wars through the unwarranted botulism scares of the mid 1970's.

Our problem is that the fruits of our efforts in developing, producing and marketing our products are being given to Communist China through the U.S. Trade Policy. Removal of the Trade Adjustment Assistance Program would be tantamount to aiding and abetting the theft by Communist China of our business.

We urge you to permit the continuation of the Trade Adjustment Assistance Program allowing the continuation of this firm and our industry.

Sincerely,

THOMAS DICECCO, Jr.,
President.

PACIFIC FIREPLACE FURNISHINGS, INC.,
Tualatin, Oreg., February 23, 1982.

Mr. JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means, House of Representatives, Longworth House Office Building, Washington, D.C.

DEAR MR. SALMON: It has come to our attention that the Trade Adjustment Assistance Program is not included in the proposed Administration Budget for 1982–1983.

From what I understand and have experienced, the program has not been expensive and has been very effective for the dollars spent. It has certainly helped a number of smaller firms such as ours adjust to changing market conditions brought about by free foreign trade without the addition of restrictive tariffs which in the long run do more harm than good.

The consulting assistance we have received due to this program has been outstanding. This has led to the ability of this firm to take definite steps towards recovery from severe foreign trade competion in major product areas. Also, the assistance we have received is the major factor in surviving the severe recession we are facing in our industry, allowing this company to enter its Fiftieth Year of Business in 1982.

It is inconceivable to me that a Federal Program as efficient as this would be considered for elimination.

I would be more than happly to provide any addition information at our disposal in hopes that the Trade Adjustment Assistance Program will not be terminated.

Sincerely,

RONALD A. SCHOENHEIT,
President.

WASHINGTON, D.C., *February 26, 1982.*

Representative SAM M. GIBBONS,
Chairman, Subcommittee on Trade, Committee on Ways and Means, House of Representatives, Cannon House Office Building, Washington, D.C.

DEAR CONGRESSMAN GIBBONS: I am writing on behalf of the Profile Sports Corporation of West Lebanon, New Hampshire in support of continued funding for the Trade Adjustment Assistance program. This letter is submitted in connection with the Committee's hearings on the Administration's proposed FY 1983 budget which would eliminate all funds for both direct loans and loan guarantees pursuant to the Trade Act of 1974. I would appreciate it if this letter could be made a part of the hearing record.

The Profile Sports Corporation was recently certified as eligible to apply for Trade Adjustment Assistance and is currently preparing a formal application for either a direct loan or loan guarantee. The application will be submitted shortly, but depending on the time necessary for the Commerce Department to act on the application, and the number of other applications, it may or may not qualify for funds already appropriated for FY 1982. Profile Sports thus has a direct and immediate interest in continued funding of this program in FY 1983.

Profile Sports has been in business since 1869. It currently manufactures a line of quality ski wear. It employs a work force of skilled garment makers of approximately 80 people, and at its peak several years ago, employed approximately 130 individuals. As such, it is a significant employer in its community. The company has a long-standing reputation as a supplier of quality sportswear to both large department stores and smaller, more specialized ski outlets.

In recent years, the corporation's business has been adversely impacted by substantial increases in imports from Taiwan, South Korea, Hong Kong, and Singapore.

This has severely threatend the viability of Profile's business and the continued employment of its workers. The impact on this one firm is similar to that experienced in recent years by other clothing manufacturers throughout the country, with which I am sure you are familiar.

This firm is in precisely the situation which the Trade Adjustment Assistance program is designed to ameliorate. The loss of market share attributable to increased imports, compounded by the cyclical nature of the ski wear industry and the more generic problem of historically high interest rates has placed the firm and its employees in a precarious situation. It needs additional capital, not now available from traditional lending sources on reasonable terms; more importantly, it needs precious additional time to make necessary adjustments to changed market conditions. Given those resources and that time, the firm can continue as a viable domestic manufacturer and an important economic contributor to its home community in New Hampshire. That the Government should facilitate such a desirable result is no less logical today than when the Trade Act was originally enacted; indeed, previous Adminstrations, both Republican and Democrat, have supported the program as a necessary domestic component to our international trading objectives.

The Administration's rationale for eliminating the Trade Adjustment loan program boils down to two propositions. First, the Administration argues that the President's "Economic Recovery Program" will, in the aggregate, lower interest rates and increase employment. This is indeed a consummation devoutly to be wished. However, this happy day is not upon us nor is it in immediate view. Interest rates remain near historic highs, and smaller firms like Profile Sports are being "crowded out" of the credit markets.

Second, the Administration asserts that Trade Act loans in the past have proven to be "bad loans" with a significant default rate. It is of course true that some Trade Act borrowers have not remained viable. But in many other instances, a direct loan or loan guarantee has made the crucial difference in preserving domestic manufacturers and the jobs which go with them. Any loan program, no matter how conservative, will have some defaults. And any loan program which attempts to ease the transition for firms being battered by rapidly increasing international competition should logically be expected to have relatively high default rates. Particularly is this the case where a program holds out the promise of relief but then delivers either too little or too late in situations that might once have been reversible.

In summary, the need for a Trade Adjustment Assistance program is as great today and in the immediate future as it has been in recent years. If, several years from now, the Administration's economic program has produced the laudable objectives it set forth, the Congress might appropriately question whether the Adjustment Assistance program in its current form is still necessary. With today's interest rate situation, there can be no question that it is not only appropriate but essential to continue the program in FY 1983 at the least current levels.

I urge the Committee to take into account the pressing needs of Profile and countless firms like it as you consider recommendations to the Budget Committee.

Respectfully submitted.

ROBERT J. SANER II,
Counsel for Profile Sports Corp.

SHUTZER INDUSTRIES, INC.,
Lawrence, Mass.

Mr. JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means, House of Representatives, Longworth House Office Building, Washington, D.C.

DEAR MR. SALMON: My name is Lawrence L. Shutzer, President of Shutzer Enterprises of 250 Canal Street, Lawrence, Massachusetts and also of 202 Depot Street, Durant, Mississippi. My company is involved in the manufacturing of apparel for the United States Market. The telephone number where I can be reached is 617-686-9771.

I am writing you in favor of the 1983 budget for the Trade Adjustment Assistance Program for workers and firms administered by the International Trade Commission.

Our company has been subjected to a devastating amount of imported leather products and down products that have affected our whole operation, costing the jobs of 800 people so far in the past six months both in the states of Massachusetts and Mississippi. Involved in some of the imports have been products that were certified as unfair competition by the International Trade Commission.

I have been in touch with Congressmen Whitten, Montgomery and Shannon to lay out my problems with them and sincerely hope they are in touch with you so that the committee realizes how very important it is that this program be continued.

Very truly yours,

LAWRENCE L. SHUTZER,
President.

SUNSET SPORTSWEAR, INC.,
Seattle, Wash., February 19, 1982.

Mr. JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means, House of Representatives, Longworth House Office Building, Washington, D.C.

DEAR MR. SALMON: I am enclosing a copy of my letter dated October 6, 1981, which was addressed to Mr. Malcom Baldrige.

As my letter outlines, we feel very strongly that your Trade Adjustment Assistance program as currently in existance, has definite benefits which will enhance President Reagan's economic recovery act. If it was not for an assistance program such as this, many employees would have lost their jobs and the company would have simply terminated.

I strongly urge you to consider the continuation of this program which we feel is highly beneficial to the economic development of our community and other communities in general.

Kindest personal regards,

W. R. HUISINGH, *President.*

SUNSET SPORTSWEAR, INC.,
Seattle, Wash., October 6, 1981.

Re trade adjustment assistance for firms under section 251 of the Trade Act of 1974, Public Law 93-618.

Mr. MALCOLM BALDRIGE,
Secretary of Commerce,
Main Commerce Building, Washington, D.C.

DEAR SECRETARY BALDRIGE: As a result of the assistance the above program has offered and given to Sunset Sportswear, the economic benefits will be greatly felt in the Seattle area. The success of your assistance has already began to show. I would personnally like to commend you for the program you have offered and implemented successfully.

A brief review of the assistance you have given Sunset and the benefits derived are as follows. Sunset has drastically been affected by a deterioration caused by being unable to compete effectively against the low cost foreign imports. As a result, a decision had to be made to protect the value of the company. Do we close our complete manufacturing operations in Seattle, as two other large manufacturers did (Black Manufacturing and Farwest Garments), or do we use our ingenuity in developing a program in which we might save the jobs of our two hundred employees.

As we analyzed our strengths and weaknesses we came to some definite conclusions. Our strengths and expertise were in manufacturing and overall business management. Our weakness was our ability to market our products on a profitable basis due to the impact of imports in our industry. Our capital and resources were and are limited and therefore we could not afford the technical assistance to do an in depth study and research so as to determine if it was feasible to continue operations. Thanks to your support, we were able to continue our technical research with attorneys and accountants.

We are now excited to report that we have structured a meaningful relationship with another company that was not as strong in management and manufacturing expertise, but had a built in vehicle to market the product.

If it was not for a program such as yours, we would not have been able to do the necessary research and thereby solve the marketing problem facing Sunset. We will have additional work to do in developing a strong company, but I really thought you should personally be made aware of the success of this program.

I sincerely appreciate the efforts of your staff in Seattle, particularly F. J. McLaughlin and Nancy Lemke, as they have exhibited their high degree of skill in assisting our firm. Their ability and professional manner in dealing with Sunset reflects a strong organizational base of which you can be proud.

Again, I want to commend you for this program which has proven to be extremely beneficial to the Seattle economy.

Most sincerely,

W. R. HUISINGH, *President.*

STATEMENT OF DAVID J. STEINBERG, PRESIDENT, U.S. COUNCIL FOR AN OPEN WORLD ECONOMY, INC.

(The U.S. Council for an Open World Economy is a private, nonprofit organization engaged in research and public education on the merits and problems of achieving an open international economic system in the overall national interest.)

This statement is limited to the International Trade Commission, specifically the structure of the Commission and the adequacy of ITC investigation and analysis in import-relief cases. The Council has made these points in previous Congressional hearings, but to no avail.

We question the need for six commissioners (the statutory complement). The Commission has got along well with 4 or 5 commissioners at various times in its long history. The Commission might operate more efficiently with fewer than six commissioners, and each seat terminated would save the taxpayers more than $100,000 a year when the total costs of each commissioner's office are considered.

We question the statutorily required rotation of the ITC chairmanship (and vice chairmanship) every two years. Each commissioner is not ipso facto qualified to be chairman. We also suggest that Congress look into the need for the personal professional staff (other than a secretary) which each commissioner is authorized to have. Each commissioner is currently authorized to have four persons, of whom no more than one can be higher than GS-15 and no more than one additional person can be higher than GS-14. We question the need for such private professional staffs in the face of the full access each commissioner has to the Commission's formidable legal and economic staffs. Is it possible that these private staffs have led to rivalries, including adversarial relations with the main Commission staffs, that are less than desirable, affecting adversely the quality and utility of commissioner opinions in import-relief and other cases? The budget savings from the aforementioned reforms would be "peanuts", but this is no justification for neglecting them.

The Commission is not fulfilling its explicit and implicit obligations under the Trade Act of 1974 in import-relief investigations. It is neglecting the full implications of Section 201(b)5 by not fully assessing the adequacy of steps the petitioning industry has taken toward becoming more competitive with imports, and not assessing the extent to which government statutes and regulations may be impairing the industry's adjustment capability. Also neglected is assessment of the differential impacts which import restriction may have on different sectors of the industry. Windfall gains for some sectors that may not need government help may cause additional problems for those that do.

Not all these analytical factors may materially affect the Commission's decision in every case, but all are important for the President to assess if he wishes to develop a coherent industry adjustment policy whether or not the Commission finds serious injury or threat threof, but particularly if it does. Such a strategy should be the framework for any resort to import control, and the trade law should so require. However, the President is free to proceed along these lines even without a legislative mandate, and the ITC should want to help him in this regard in every way it can. The Commission is less imaginative and innovative than it can and ought to be.

STATEMENT OF JOHN J. SHEEHAN, LEGISLATIVE DIRECTOR, UNITED STEELWORKERS OF AMERICA

Gentlemen, last year when we submitted our union's position with respect to the cost of the Trade Adjustment Assistance program—the thrust of our argument was that the Administration's projected budgetary outlays for the program for FY 1982 were bloated. The evidence which we submitted showed that the surge in costs was the result of massive domestic automobile job layoff caused by foreign imports; and that as this surge washed through and workers terminated their eligibility, then the program would return to levels of import job loss that were previously considered "normal" or "tolerable." Because TAA would be subject to reevaluation and renewal by October 1, 1982, we pleaded for a stay of execution until this session of the Congress.

Yesterday, the Under Secretary of Labor testified before this Subcommittee and had he had the presence to do so he could have confirmed that the cost of the trade assistance program for FY 1981 was $1.5 billion rather than the $2.7 that he had projected for FY 1981 when he testified last year. We must emphasize that because the amendments contained in the Reconciliation Act did not come into force until October 1, 1981, not one cent of this savings can be attributed to the amendments.

As the Committee knows, major changes to the program were contained in the Omnibus Budget Reconciliation Act of 1981 with the fundamental shift being away from the weekly cash benefit allowance to an emphasis which would be directed toward retraining and relocation.

As of October 1, 1981, the weekly cash benefit program was converted into an extended unemployment compensation program with allowances varying from state to state, while the much touted retraining funds will lump workers who are laid off because of imports with migrants, American Indians and older workers. One does not need to be an expert in the history of these unfortunate Americans to presume upon the future of this endeavor.

The Under Secretary proposed yesterday that the Trade Readjustment Assistance benefits will be eliminated as of July 1, 1982, with provisions for workers currently in training to continue until their studies are completed.

Members of the committee, if this final proposal is enacted then our statement herein becomes a valedictory on a compact that the Congress of the United States entered into with its industrial workers in 1974.

The criteria for certifying workers adversely affected by imports were modified in the 1974 Act as a specific response to congressional action and in recognition of the presumption that some industrial workers and firms would be injured as a result of a more liberalized trading posture.

Here is a summary of the benefits which Steelworkers have received from the beginning of the benefit program in mid-1975 up to the time the program was modified in 1981:

Some 132,000 workers in the primary metals industry were certified as eligible for trade adjustment assistance.

These workers received some $348 million for an average of $2,636 per person.

From 1974, the year of enactment of the Trade Act, through 1981, total employment declined by 99,000 workers, of which production worker employment declined by 90,000 jobs.

During the years 1975 through 1981, the value of imported steel equaled $34.4 billion.

Thus the total TRA benefits paid out of federal funds to laid off Steelworkers equaled one cent on each dollar of imported steel.

It should be of interest to members of the present Congress that one recommendation made by the authors of the Trade Act was that a fund for trade adjustment assistance be established with precisely one cent of each dollar of imports deposited for the benefit program.

Last year, the Administration achieved a fundamental change in the readjustment program and based the need for such change on faulty budget estimates. If the Administration's new proposals are adopted, it will mean the end to the readjustment process upon which the other trade assistance benefits are contingent.

We urge this committee to reject these changes and to restore a meaningful trade adjustment assistance program for all workers adversely affected by foreign imports.

WASHINGTON STOVE WORKS,
Everett, Wash., February 19, 1982.

COMMITTEE ON WAYS AND MEANS,
House of Representatives,
Longworth Building, Washington, D.C.

Attention of Mr. John J. Salmon, chief counsel.

DEAR MR. SALMON: I wish to comment on the Trade Adjustment Assistance Program for firms.

This company has been deeply injured by imports from Taiwan. In fact, we normally have a capacity of about 200 employees and now are only running with 19, which includes the officers of the firm.

These companies in Taiwan copy everything that we manufacture and bring it in here for less than half our selling price.

As long as the United States is not going to protect its manufacturers and employees of these same firms, we feel that there must be some compensation for the companies.

We urge that you continue to fund this program.

Yours truly,

R. E. **Mackey**,
Chairman of the Board.

House of Representatives,
Select Committee on Narcotics Abuse and Control,
Washington, D.C., March 2, 1982.

Hon. **Sam M. Gibbons**,
Chairman, Subcommittee on Trade, Committee on Ways and Means, Cannon House Office Building, Washington, D.C.

Dear Sam: I am writing to express my concern about the level of resources requested for the U.S. Customs Service in the Administration's proposed budget for fiscal year 1983. I understand that the Administration's proposal would reduce the Customs Service by 2,304 employees, or 17 percent of its present authorized strength, including the loss of 873 Inspectors and 97 Customs Patrol Officers. An additional 300 Inspectors could be lost if Congress does not approve the Administration's plans to support these positions through the imposition of certain aviation user fees.

As Chairman of the Select Committee on Narcotics Abuse and Control, I have no doubt that such a reduction would gravely weaken the nation's primary border law enforcement agency at a time when the threat from illicit narcotics traffic is greater than ever before. The retail value of illicit drugs sold on the U.S. market is estimated to be about $80 billion each year. Most of these drugs are smuggled into the United States. According to our best estimates, our law enforcement agencies are interdicting only 10 percent of the total quantity of illicit drugs imported from abroad.

The Customs Service has made valuable contributions in our nation's effort to stem the massive drug trade. From 1978 to 1981, the value of narcotics and other illicit drugs seized by Customs rose from $2 billion to $5.2 billion. Virtually all of the heroin seizures and a high percentage of the cocaine seizures by Customs in recent years have been made by Inspectors. Customs Patrol personnel have also played a vital role in interdicting drug traffic, particularly marihuana. It is difficult to understand how Customs can continue to improve, or even maintain, its interdiction record if it is forced to make the substantial cuts in personnel contemplated by the Administration's 1983 budget. These cuts undoubtedly would also force Customs to curtail other services including the processing of passengers and cargo entering the United States.

As you are well aware, most of the marihuana and cocaine smuggled into the United States enters through Florida. The impact of this illicit trade on the State's economy and on crime in southern Florida has been documented by the Select Committee and many others in recent years. Recently, the Administration announced a number of steps that are being taken to provide increased Federal assistance to South Florida, including the assignment of 130 additional Customs personnel to the area. I am concerned, however, that a strategy of covering one area by stripping resources from others ultimately will be self-defeating, as drug traffickers will simply shift their operations to locations where the risks of detection are reduced. If we are to have any hope of significantly reducing the drug trade, Customs, as well as our other drug enforcement agencies, must be provided with the resources needed to maintain a balanced enforcement posture in all threatened areas.

I understand that the Customs Service would require approximately $44 million over the Administration's request for fiscal year 1983 to maintain its operations and personnel at 1982 levels. I urge the Trade Subcommittee to restore the positions that would be cut by the Administration's proposed budget when the Subcommittee considers the Customs Service appropriation authorization bill for fiscal year 1983.

Thank you for your consideration of these views.

Sincerely,

Leo C. **Zeferetti**, *Chairman.*

○